

Business report 2009

Annual Report 2009 Letno Poročilo 2009

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
(z leve proti desni)

Dear Ladies and Gentlemen,

The very difficult business year of 2009 is behind us. The global economic crisis spread to almost all areas of business. We had to face major changes, some of them unexpected, for which reason scenario management was even more in the foreground.

While early in 2009, the main focus of the financial markets remained liquidity, as in the last quarter of 2008, this focus changed during the course of the year as various instruments and measures used by stakeholders in the financial and capital markets started to show effects. The focus then shifted to the stabilisation of interest income and credit risk management. The dramatic slump in the Euribor reflected very negatively on the net interest income of banks, Banka Volksbank d.d. included.

Net interest income fell the most in the first quarter of 2009 (in Volksbank by 20 % compared to the last quarter of 2008), but the situation improved significantly during the second half of the year, as the measures we identified at the end of 2008 and implemented gradually in the course of 2009 worked quite well. By year-end, the fall was almost, but not entirely, offset as the bank recorded a fall of 3.8 % in its nominal net interest income. Fee income also fell compared to 2008, by more than 12 %, but this drop was constant throughout the year. The main reason for this reduced income was the sales of certain investment products that were slower than in 2007 and 2008 due to the changed market conditions.

The bank's total income fell by 8.6 % compared to 2008. The bank managed to significantly offset this drop in income by taking cost-saving measures and strictly controlling its expenses, which it managed to reduce by 5.8 %.

This crisis, which started in 2008 in the financial markets, spilled over to the real sector as expected. We were prepared for this and, working closely with our clients, adjusted our business solutions to fit as well as possible their needs. The bank stuck to its strategy adopted in 2008 of reducing significantly the unsecured loans in its portfolio.

In practice, this meant that we focused even more on the strategically most important business segments: the retail segment and the small and medium-sized corporate segment. Despite the difficult conditions we thus increased the volume of loans to small and medium-sized companies by 15 %, while the volume of loans to all companies remained at the 2008 level. Loan volume in the retail segment increased only slightly.

As at year-end, deposits were higher than a year ago, but their volumes fluctuated significantly over the course of the year. This is mainly attributable to the fact that the bank has a very stable liquidity structure (long-term refinancing included), for which it did not have to attract deposits by offering aggressive interest rates to compensate for any repaid loans raised on the inter-bank market. This caused a slight outflow of deposits, but we were satisfied to see that the response of our clients to changes in interest rates, in particular those from the retail segment, was not very volatile, and that what counts the most is trust and a long-term relationship with the bank.

All the efforts and measures notwithstanding, we were not able to completely escape the crisis that hit our clients and required increased impairments of loans. This was somewhat mitigated due to the sound loan portfolio collateral.

As instructed by Banka Slovenije, the supervising body, the bank changed the method of calculating general impairments associated with credit risk, and consequently significantly increased them (EUR 2 million) – to reflect not only the current, but also the past growth in loan volume. This of course caused a one-off surge in impairments that affected the 2009 profit, which was EUR 454 thousand in 2009.

As the entire banking sector, Volksbank faced very difficult conditions in 2009: on the one hand, there was the fall in income, mainly in the first half of the year, and on the other, there was the increase in credit risk. Bank management and employees are aware that such conditions require rapid and flexible action, as well as strong partner relationships with clients. We believe that our organisation and staffing are such that they will allow the bank to operate adequately and with success also in such critical conditions. In this context, we must not lose sight of our long-term objectives and client relationships, which are the most important.

mag. Gašpar Ogris – Martič

Chairman

Aleš Zajc, MBA

Deputy Chairman

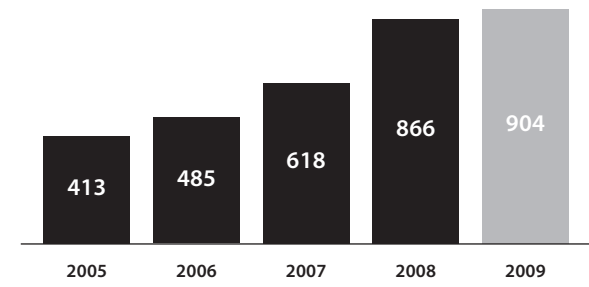
mag. Johann Staudigl

Board Member

THE BANK IN NUMBERS (2005–2009)

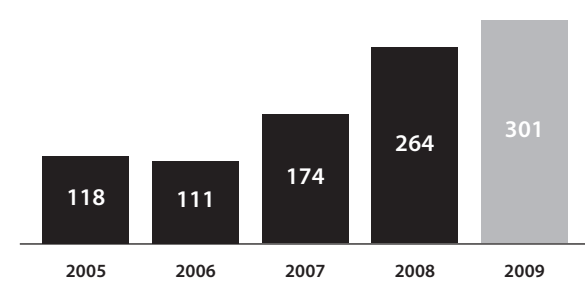
TOTAL ASSETS

in million EUR



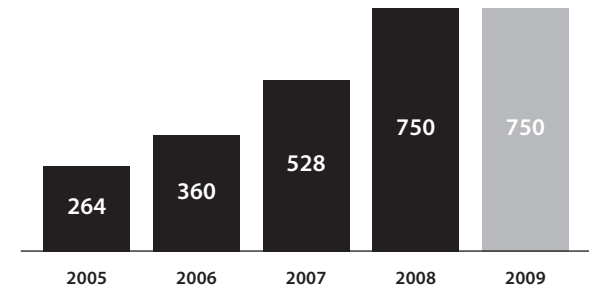
AMOUNTS OWED TO CUSTOMERS

in million EUR



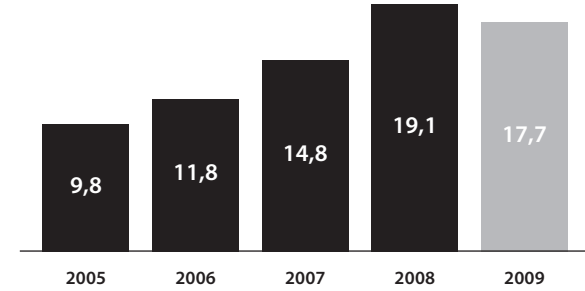
LOANS TO CUSTOMERS

in million EUR



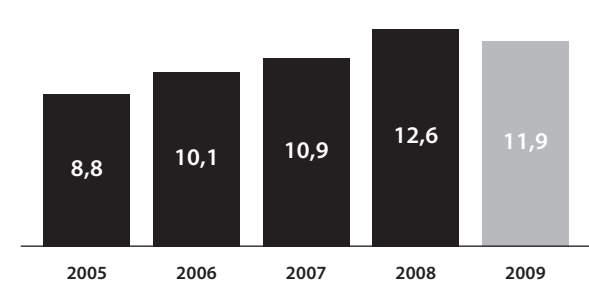
OPERATING INCOME

in million EUR



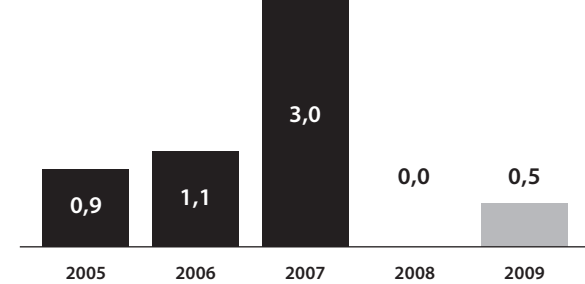
OPERATING EXPENSES

in million EUR



TOTAL PROFIT BEFORE TAX

in million EUR



INTERNATIONAL NETWORK



Banka Volksbank d.d. has operated successfully in Slovenia since 1993. The bank's main shareholder is Volksbank International AG, located in Vienna, Austria.

Volksbank International AG (VBI) in turn is majority-owned (51-%) by Volksbank AG (VBAG), while the remaining share is held by the German DZ BANK / WGZ BANK and the French Banque Fédérale des Banques Populaires (BFBP) (each holds 24.5 %). VBI has a successful and expanding banking network with 582 sales outlets in nine Central and Eastern European countries: Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Romania and Ukraine.

At year-end 2009, total assets of the VBI Group amounted to EUR 13.9 billion. Its more than 5,480 employees provided a full range of modern banking products and services to both household and corporate clients.

www.vbi.at

GOVERNING BODIES

SUPERVISORY BOARD

Chairman: Michel Ivanovsky, Volksbank International AG, Vienna

Deputy Chairman: Gerhard Wöber, Volksbank International AG, Vienna

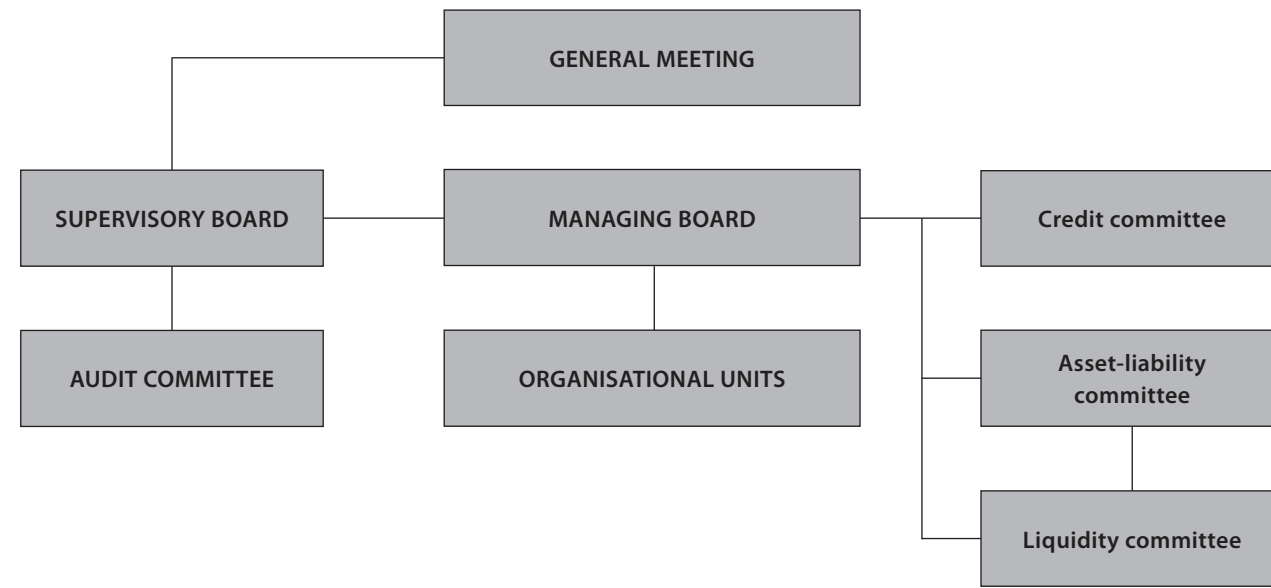
Members: David Vadnal, Volksbank International AG, Vienna
 Thomas Capka, Volksbank International AG, Vienna
 Jörg Langner, Volksbank International AG, Vienna
 Fausto Maritan, Banca Popolare di Vicenza, Vicenza

AUDIT COMMITTEE

Michel Ivanovsky, Chairman
 Gerhard Wöber, Deputy Chairmain
 David Vadnal, Member
 Reinhard Kaufmann, Independent Expert

MANAGING BOARD

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



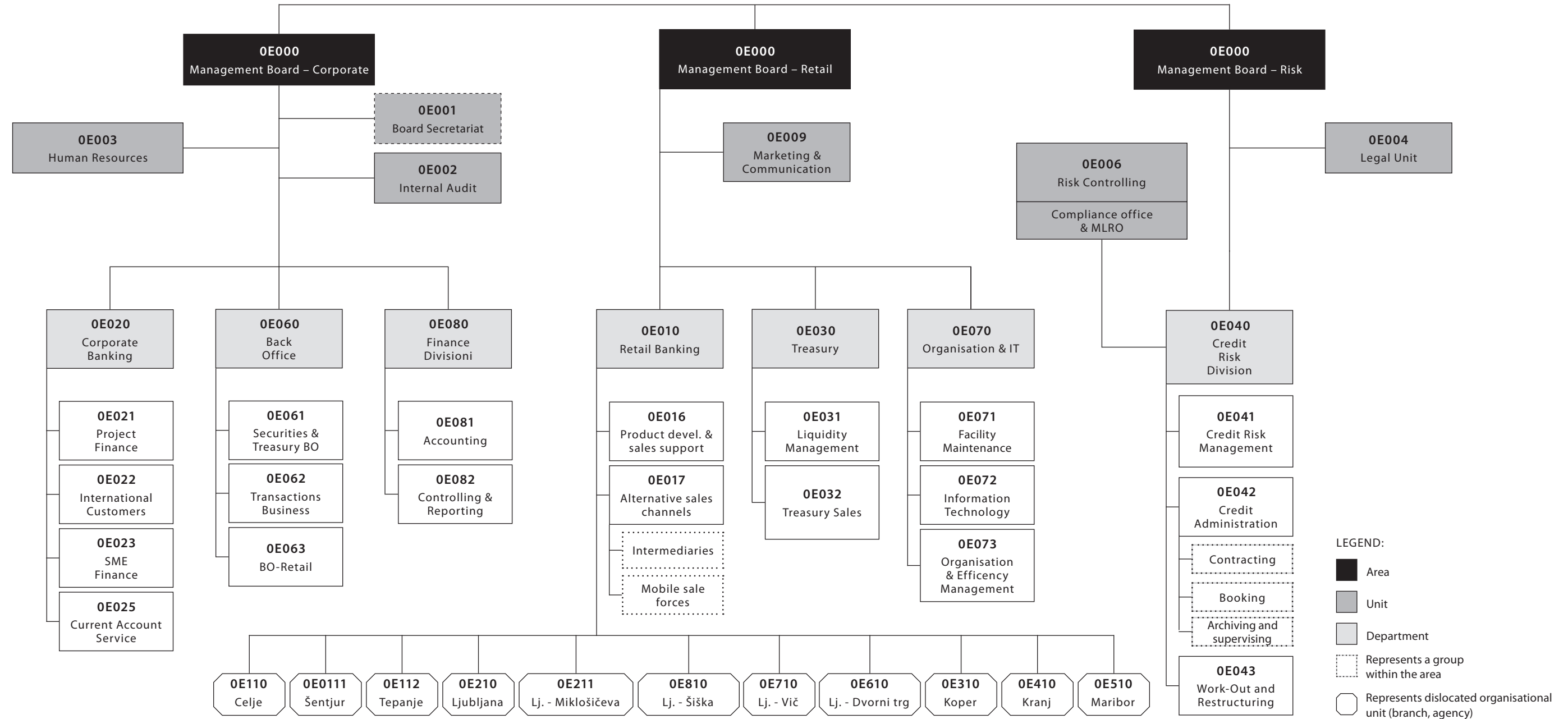
VOLKSBANK GROUP

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 2009, the subsidiary's balance sheet total was EUR 1,701,139.39, which represented less than 1 % (0.19 % 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".

ORGANISATIONAL STRUCTURE

BANKA VOLKSBANK D.D.



GENERAL BUSINESS ENVIRONMENT IN 2009

Despite numerous saving measures of states all over the world we could observe the further downturn of world economy. Industrial production decreased and construction business is still in decline. The international economic crisis caused the worsening public finance in most of EU countries.

In 2010 we can expect the average budget deficit in EU to increase to 7.5 % of GDP. The economic conditions worsened especially in the EU countries which had public finance problems before the crisis (Greece, Great Britain) and in the states which were the most affected by the crisis (Spain, Ireland, Iceland...). The main reasons for the worsening of public finance are: fiscal stimuli in the form of anti-crisis measures, decrease of tax revenues and increased expenses for social security. European Commission estimates that the average public debt in EU area is going to increase to almost 80 % of GDP.

In December 2009, the key interest rates of important central banks were on the record low levels. At the end of year Euribor 3 months rate was at the same level as in preceding three month, that is at 0.71 %. Euro lost value in comparison with other important currencies. Dollar recovered against Euro for 2 % and Yen and Swiss Franc also grew stronger against Euro. British Pound stayed at the same level. Oil price (a barrel) at end of 2009 was one-third lower than the price as at 31 December 2008 (average oil price a barrel in December 2009 was 50.5 EUR).

Despite that short term activity ratios are underpinning the expectations of a gradual recovery of European economy in the upcoming year 2010.

Consumer prices in Slovenia grew by 1.8 % in 2009, which was mainly due to economic policy measures. In 2009, consumer price movements were largely affected by prices of oil, weak economic activity and higher services prices as a result of fiscal economic policy measures. Late in the year, the government adopted a new Plan of Adjusting Administered Prices.

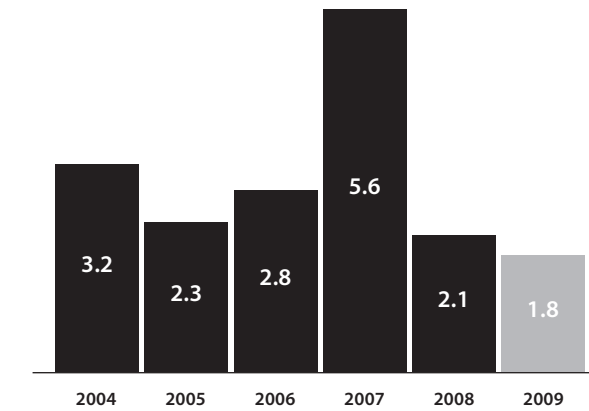
Merchandise export increased by 1.0 % in October and decreased by 18.0 % on annual basis. Annual export to the most import trade partners (Germany, Italy, Austria, France) represented 47.9 % of Slovene merchandise export and a slight decline was recorded. The export to non EU countries also fell, especially to Serbia, BiH, Russian Federation.

The labour market conditions in 2009 were critical. The number of employed people was reduced in all industries (the most in manufacturing – because of Mura bankruptcy, mining, construction, commerce, public administration, tourism). The number of registered unemployed persons climbed to 96,672 in December 2009. The official registered unemployment rate in October 2009 was 10.0 %. Slovenia's government adopted the Plan of the Active Employment Policy Programme for 2010 and 2011, in order to improve the current situation.

Current account deficit lowered in comparison to 2008. Merchandise trade was almost balanced, which is a result of shrinking deficits in merchandise trade with EU members. External debt of public sector grew for EUR 2.9 Billion from 2008. Total net external debt amounted to EUR 10.3 Billion. In comparison it grew by 2.1 percentage points to 28.6 % of GDP.

In 2009, total assets of the banking sector increased by 8.3 %. Bank savings increased by 11.6 %. Loans to non-banking clients stayed on the same level, while bank loans increased by 39 %.

INFLATION IN %



STRATEGY IN 2010

In 2010, Banka Volksbank d.d. will continue implementing its strategy outlined in the second half of 2008, at the onset of the current financial and economic crises, when it shifted some of the focus of its operations, without however losing sight of its main objectives.

It will therefore focus on banking activities that do not increase risk-weighted assets, as their growth or long-term loan refinancing will be limited. The bank will continue to enrich its product range with innovative products in the field of deposits (by upgrading "E-Interest", investment structured products, insurance services offered together with Victoria Volksbanken, etc.) and treasury products.

The bank's objectives by segments are set out below.

Corporate segment

Already upon concluding new transactions in the second half of 2008, the bank shifted its focus to the main target group, i.e. small and medium sized companies. It managed to grow this segment throughout the crisis despite the difficult conditions in the loan market. The bank will continue to dedicate the majority of its loan, human and other resources to this target group. The loan portfolio in this segment should grow moderately in 2010, based on an integral and profitable relationship with each client. To achieve this long-term objective, the bank has adopted a medium-term strategy that lays down the number of clients and the quality of relationship with each of them.

In the area of project financing, the bank was mainly involved in small and medium-sized projects in residential construction. This will remain so, particularly once a couple of larger projects are completed. Given the current conditions, the bank expects a standstill in residential sales on the one hand and residential market differentiation in terms of quality and location on the other. In such conditions, smaller and thus more transparent projects are preferred, as they are significantly less sensitive to the general market conditions. In the medium-term, the bank does not plan an increase in the volume of project financing, but rather an increase in its differentiation in terms of project number and quality.

In the area of larger and foreign-owned companies, the bank will not increase its loan portfolio. The main criteria for granting loans to this segment will be the profitability of each transaction at an acceptable level of risk. As regards larger companies, a decrease in loan portfolio is likely, and as regards foreign-owned companies, the bank will continue focusing on smaller and medium-sized companies which more than loan financing need day-to-day operations financing.

Retail segment

In 2009, property markets slowed down, interest rates on active and passive transactions changed, and new capital restrictions were introduced.

In 2010, the bank will pay more attention to savings products, as it had developed suitable savings products for each segment. It will market short-term savings in E-interest accounts, medium-term savings in the form of deposits and structured products, and long-term savings in the form of attractive life insurance products. In order to get a better insight into client needs and enhance cross-selling, clients were re-classified into segments based on their actual and potential transactions with the bank. A medium-term strategy has been adopted that lays down also income per client, which represents a big step forward in the treatment of individual clients.

Loans to the retail segment remain the pillar of the bank's operations due to their potential as regards cross-selling and long-term client relationships. As the first bank in Slovenia, Volksbank offered its individual clients the possibility to protect against interest rate risk and thus made its long-term loans more attractive.

In 2010, the retail segment will also cover so-called micro clients, that is companies and sole proprietors with annual revenues below EUR 700 thousand. Everything had been prepared so that micro clients will be able to choose from the whole range of services starting 1 January 2010. Micro clients also represent an opportunity for the cross-selling of a number of products designed for natural persons.

Treasury

While the bank successfully restructured its securities portfolio in 2009, it intends to stick to a conservative approach, oriented towards debt securities from the Euro area in 2010.

A more aggressive approach is planned to attract deposits as an alternative source of finance for the loan portfolio. Collection of deposits will follow the actual growth of the loan portfolio, the pace dictated by the bank's activities in the money market and usage of instruments available at the European Central Bank.

While the bank had previously prepared itself to adopt a slightly more active role in the foreign exchange market, it has decided to keep to existing limits. Given the loan policy, it expects moderate income from repayment of loans in foreign currencies.

The bank took an important step when it positioned itself as a significant provider of financial and commodity derivatives. The volume of transactions concluded in 2009 was not large, but income from them should increase in 2010.

Risk management

In view of economic conditions, the bank indicated in its 2010 business plan that loan volume should grow moderately and that there should be more activities in the field of deposits and other financial and investment products.

The plan also provides for close monitoring of all cost items. This will contribute to the rationalisation of its operations.

Being aware that the financial crisis has spread also to the real sector, the bank accordingly strengthened its credit and operational risk management. Above all, the bank will have to be able to identify early the clients in difficulties, in order to be able to assist them. As a rule, it will be reducing the unsecured portion of its loan portfolio to the benefit of secured loans.

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

The bank Volksbank d.d. continued with its active marketing to SMEs and private entrepreneurs, which has been its strategy for several years now. This was the crucial strategy in the crisis year 2009, when we invested more money in the SME segment, which is more dispersed, with lower risk, higher collateral and of course with higher margins.

In the Corporate department we continue with fantastic results in the year 2009 in spite of the total volume of loans to companies not changed and stayed on the nearly same volume like in the year 2008. The growth of income was achieved mostly

because of high margins and increase of loans to SME segment for EUR 44 Mio. On the other hand, we decreased the volume of loans to big Slovenian and international companies. The total volume of loans to companies and private entrepreneurs was EUR 533 Mio, while the balance sheet total was EUR 904 million at year-end 2009. 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 2 %, which is slightly above expectations. Credit activities were normally executed throughout the year, but due to cost efficiency with less advertising activities. Despite financial crisis the share of loans with payment delay was not significantly higher.

Loans to banks decreased by 1 % or EUR 0.4 million, which is explainable by the bank's short-term deposits with banks being smaller at year-end 2009 than at year-end 2008.

thousand EUR						
Loans by type of client	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Banks	49,372	6	350	49,722	6	101
Companies	537,328	67	-3,944	533,384	67	99
Households	212,883	27	3,324	216,207	27	102
Total loans	799,583	100	-270	799,313	100	100
Loans by maturity						
Short-term	234,606	29	-70,058	164,547	21	70
Long-term	564,977	71	69,788	634,766	79	112
Loans by currency						
EUR	664,363	83	35,106	699,470	88	105
Foreign exchange indexation	46,056	6	-5,693	40,363	5	88
Foreign currencies	89,164	11	-29,683	59,481	7	67

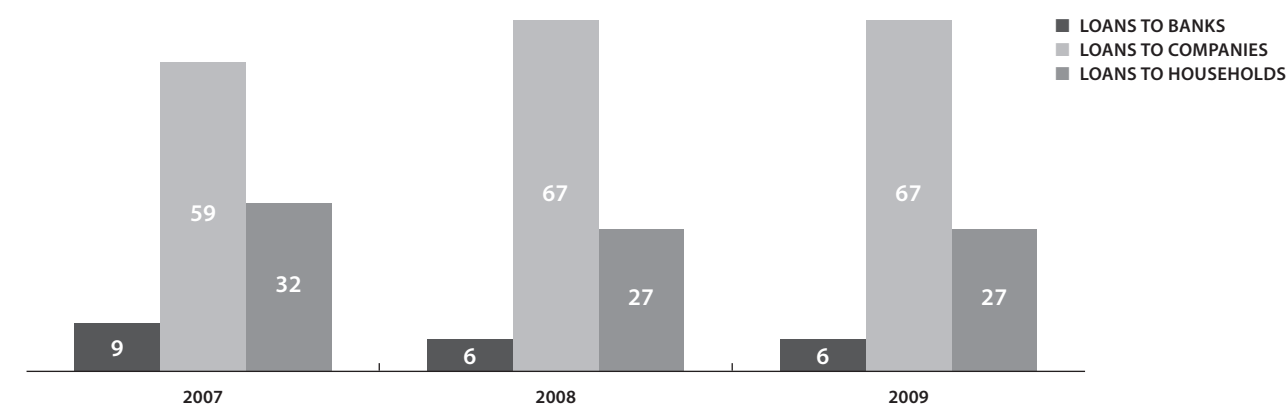
As regards loan maturity, long-term loans prevailed. They increased by 12 % to EUR 635 million, while short-term loans decreased by 30 % to EUR 165 million. The share of short-term loans in the total loans decreased by 8 percentage points to 21 %, while the share of long-term loans in the total loans increased by 8 percentage points to 79 %.

After financial crisis emerged in September 2008, the Bank ceased selling loans in Swiss Francs. The positive growth was demonstrated at Loans in EUR, which grew by 5 % to EUR 699 Million. The largest part in the composition the loan portfolio is

represented by loans in home currency with 88 per cent, followed by foreign currency loans with 7 per cent and loans with foreign exchange indexation clause with 5 %.

EUR-denominated loans increased by 5 % to EUR 699 million, In the bank's loan portfolio, they represent 88 %, while foreign currency-denominated loans represent 7 % and loans with a foreign exchange indexation clause represent 5 %.

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 800 million as at year-end 2009, up 5 % from 2008. As regards deposit currency, 87 % or EUR 698 million of deposits were euro-denominated, 13 % or EUR 101 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) remained unchanged. to represent 62 % 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	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Banks	500,016	65	-861	499,155	62	100
Companies	161,221	21	48,006	209,227	26	130
Households	102,357	13	-10,680	91,677	11	90
Total deposits	763,594	100	36,465	800,059	100	105

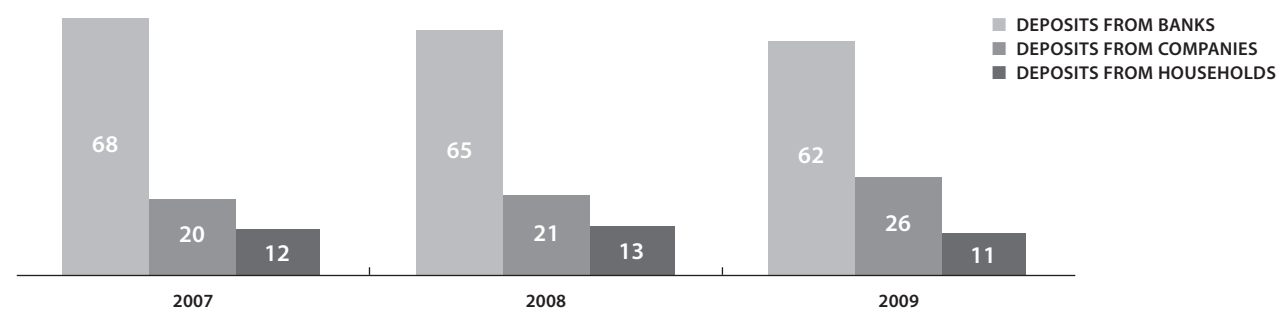
Deposits by maturity						
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Short-term	333,638	44	19,921	353,559	44	106
Long-term	429,957	56	16,544	446,500	56	104

Deposits by currency						
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
EUR	626,185	82	72,676	698,861	87	112
Foreign exchange indexation	280	0	66	346	0	124
Other	137,129	18	-36,277	100,852	13	74

Deposits from corporate clients increased by 30 % to represent 26 % of the total deposits.

Deposits made by households decreased by 10 percent in 2009, which is attributable to the fact, that bank adjusted own deposit interest rates to the situation on the money market as opposite to the majority of competitive banks who stayed on too high levels of their deposit interest rates throughout the year 2009. At the end of 2009, deposits made by households stood at EUR 92 million.

DEPOSITS (STRUCTURE IN %)



AVAILABLE-FOR-SALE DEBT SECURITIES

In 2009 portfolio of our long term bonds increased to 20.4 mio EUR (index 234). The bank increased its share in government bonds with fixed coupon and in bonds issued by Slovenian banks with state guarantee. At the same time the bank decreased its share in bonds issued by foreign banks. The main reason for enlargement of portfolio is adopted policy of the bank to keep major share of E-interest balance in very liquid and safe assets which the bank can always use as a secondary liquidity.

thousand EUR						
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Investments in securities	8,711	100	11,684	20,394	100	234
- domestic and foreign government bonds	1,517	17	13,070	14,587	72	961
- bonds issued by Slovenian banks	3,646	42	1,356	5,002	25	137
- bonds issued by foreign banks	2,427	28	-1,622	805	4	33
- bonds issued by VBAG	966	11	-966	0	0	0
- other bonds	154	2	-154	0	0	0
Total investments in securities	8,711	100	11,684	20,394	100	234

Investments in securities by currency						
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
EUR	7,835	90	12,222	20,057	98	256
Foreign currencies	876	10	-539	337	2	39

PAYMENTS

In the year 2009 changes in the payments area continued. From March on all domestic payments up to amount of EUR 50,000 are processed in SEPA standard via national SEPA payments processor. Adoption of SEPA direct debits has continued throughout the year and will be finished in the year 2010. All changes brought to us by Payment Service Directive were successfully implemented by the 1st of November 2009.

International payment transactions

Compared to 2008, the total volume of international payment transactions decreased by 44 percent and transaction number has decreased by 14.7 percent, being related to SEPA enforcement with less usage of correspondent banking

The **total volume of international payment transactions** amounted to **EUR 706 million** in 2009.

Structure of international payment transactions:

IPT	v mio EUR				
	2008	structure	change	2009	structure
Incoming	818	64.8	- 443	375	53.1
Outgoing	445	35.2	- 114	331	46.9
Total	1,263	100	- 557	706	100

Banka Volksbank d.d. processes cross-border and international payments mainly by using pan-european payment systems such as TARGET2, STEP2 and SEPA. Our own correspondent network, which consists of 13 nostro accounts abroad and 4 loro accounts with the bank is used mainly for Treasury business and less for performing payments

As much as 77.7 percent of international payments were made through the internet banking channel (VB Online) or 6.7 percent more than in 2008.

Domestic payment transactions

Domestic payment transactions volume increased in 2009 by 20 percent and transaction number has decreased by 2.4 percent.

The **total volume of domestic payment transactions** amounted to **EUR 3,230 million** in 2009.

Structure of domestic payment transactions:

DPT	v mio EUR				
	2008	structure	change	2009	structure
Incoming	1,342	49.9	281	1,623	50.2
Outgoing	1,349	50.1	258	1,607	49.8
Total	2,691	100	539	3,230	100

As much as 90.2 percent of domestic payments were made through the internet banking channel (VB Online) or 1.2 percent more than in 2008.

INSURANCE PRODUCTS

Compared to 2008, the bank sold a smaller volume of insurance policies for Victoria-Volksbanken in 2009 due to the global financial crisis, which hit in the last quarter of 2008 and reflected negatively through the year 2009 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 and gives them also a chance of long-term savings.

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 2009, 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 2009 the bank concluded several interest, foreign exchange and commodity derivatives with its clients. Majority of the deals was done on "back-to-back" basis, with the exception of interest rate caps where bank bought caps for its own account and now sell product with the margin to its clients.

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.

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.

In 2009 due to changes on investment markets bank did not offered any product by itself. We just joined some issues which took place in Austrian market

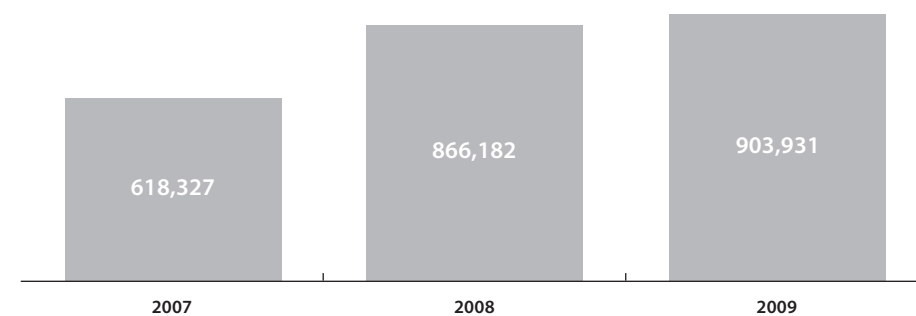
In 2009, the bank sold EUR 0.8 million of investment certificates.

STATEMENT OF FINANCIAL POSITION

At year-end 2009, the bank's balance sheet total amounted to EUR 904 million, up EUR 37.7 million or 4 % from 2008.

BANK'S FINANCIAL POSITION AS AT 31 DECEMBER

thousand EUR



STRUCTURE OF ASSETS

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

Assets	thousand EUR					
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Cash and balances with central bank	31,140	4	34,496	65,636	7	211
Financial assets held for trading	572	0	505	1,077	0	188
Available-for-sale financial assets	9,971	1	11,684	21,655	2	217
Loans and receivables	799,582	92	-269	799,313	88	100
Held-to-maturity financial assets	6,071	1	-2,989	3,083	0	51
Property, plant and equipment	8,423	1	243	8,666	1	103
Intangible assets	417	0	-123	294	0	71
Equity investments in subsidiaries, associates and joint ventures	1,614	0	0	1,614	0	100
Tax assets	212	0	123	335	0	158
Other assets	8,180	1	-5,922	2,258	0	28
TOTAL ASSETS	866,182	100	37,749	903,931	100	104

In 2009, the bank's total assets increased by EUR 37.7 million or 4 %. The most important asset item were loans (to banks and non-banks), which accounted for 88 % of the total assets and decreased by EUR 0.3 million from 2008. Corporate loans decreased by EUR 3.9 million, while household loans increased by EUR 3.3 million, bank loans increased by EUR 0.3 million.

Available-for-sale financial assets increased by EUR 11.7 million or 117 % and accounted for 2 % of the total assets. The increase is mainly attributable to the state bonds which were bought in order to improve liquidity

Cash and balances with central bank increased by EUR 34.5 million to EUR 65.6 million and represents 7 % of the total assets. The increase is mainly attributable to the overnight deposit of EUR 53 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 Kranj.

STRUCTURE OF LIABILITIES AND EQUITY

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

Liabilities and equity	thousand EUR					
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Financial liabilities held for trading	630	0	507	1,137	0	180
Derivatives (hedge accounting)	81	0	13	94	0	116
Financial liabilities at amortised cost	792,055	91	36,362	828,417	92	105
Provisions	368	0	13	380	0	103
Tax liabilities	415	0	-415	0	0	0
Other liabilities	4,995	1	398	5,393	1	108
Subscribed capital	43,140	5	0	43,140	5	100
Capital reserves	27,248	3	0	27,248	3	100
Revaluation reserves	-559	0	527	-32	0	
Reserves from profit (including retained earnings)	-2,125	0	-67	-2,192	0	103
Net profit or loss for the current year	-67	0	412	345	0	
TOTAL LIABILITIES AND EQUITY	866,182	100	37,749	903,931	100	104

On the liabilities side Financial liabilities at amortised cost increased the most that is by EUR 36.4 million. The main reason for that increase are the deposits from companies and from state. The most important among them were the deposits acquired in auctions of Ministry of Finance. In that way the Bank improved loan / deposit ratio, which was reduced from 285 % to 249 %. Further, the position also includes the deposits and loans received from banks. The bank deposits decreased for EUR 21 million and were successfully replaced by long term bank loans, mainly acquired at auctions of SID Bank. In the end, Financial liabilities at amortised cost to banks did not have impact to the net change of the position.

Financial liabilities held for trading increased by 80 % or EUR 507 thousand. The difference arose from new deals with derivatives. The derivate positions are usually closed simultaneously and that is why the same increase is observable in the table Structure of assets.

Provisions increased by 3 % and amounted to EUR 0.4 million at year-end 2009.

OFF-BALANCE SHEET ITEMS

The volume of off-balance-sheet operations involving the bank's contingent and assumed liabilities increased by 11 % in 2009, to EUR 129.3 million.

Off-balance-sheet risky assets	thousand EUR					
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Contingent liabilities under letters of credit	473	0	294	767	1	162
Guarantees, and pledged assets	28,636	25	12,154	40,790	31	142
Financial liabilities assumed	74,795	64	-4,585	70,210	54	94
Derivative financial instruments	13,062	11	4,499	17,561	14	134
Total	116,966	100	12,362	129,328	100	111

Guarantees issued increased by 42 % to EUR 40.8 million.

Financial liabilities assumed decreased by 6 %. 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 4.5 million due to the increased derivatives business.

RESULTS FROM OPERATIONS

The bank closed the 2009 business year with a net profit of EUR 345 thousand, calculated in accordance with International Financial Reporting Standards. The structure of net income and expenses in 2009 is shown in the table below:

Net income and expenses	thousand EUR			
	2008	Change	2009	Index
Net interest and similar income	16,009	-631	15,378	96
Net fee and commission income	1,964	-243	1,721	88
Net gains/losses from financial assets not at fair value	-310	448	138	
Net gains/losses from financial assets held for trading	1,301	-1,019	282	22
Net foreign exchange gains/losses	-30	165	136	
Net gains/losses on derecognition of assets	0	-4	-4	0
Other net operating income/expenses	197	-141	56	29
General administrative expenses (including amortisation/depreciation)	-12,594	734	-11,859	94
Provisions	-48	-11	-59	123
Impairment	-6,462	1,128	-5,334	83
Total profit or loss before tax	26	428	454	1,736
Income tax (latent tax)	-93	-16	-109	117
Net profit or loss for the current year	-67	412	345	

Net interest in 2009 was 4 % lower than in the year 2008, which was mainly the result of the falling interest rates. In the last quarter of 2008 we experienced extreme decline of 3 month euribor rate that fell from 5 % to 3 %. In the first half of 2009 the decline continued until euribor reached 1.1 % as per 30 June 2009.

The most of bank's assets are linked to euribor, on the other side only a part of liabilities is linked to euribor, while the other part of funds such as term deposits, balances on transaction accounts and capital is not. In the first half year interest rates fell only on asset side, therefore the bank lost a huge part of interest income. Until beginning of the summer the majority of short term deposit with high interest rate reached maturity and the new deposits had significantly lower interest rates. On the assets side the bank raised its average margin on corporate loans. The net interest income once again increased and reached the levels of the end of 2008.

Net fees and commissions for banking services decreased by EUR 243 thousand or 12 %.

Recession had a negative impact on the fee from foreign payments and fees from securities business. All the same the fees for administrative services increased a little.

Net profit from financial assets held for trading decreased by 78 % or EUR 1,019 thousand.

This is mainly attributable to fx swap business, which were used by the bank for closing open foreign currency position. According to income statement format used in Slovenia, the total dirty fair value of fx swap is shown under trading, although it would be more appropriate to show the interest part of the derivative under interest income. For that reason the general level of money market interest rates had strong influence on the amounts which come under position assets held for trading. Interest rates went down significantly and that is why the bank realised much lower income from fx swaps. The second reason for lower result in 2009 is the strong decrease in profit out of fx sales. The Bank stopped approving loans in CHF, by which it lost a great deal of income from fx margin. In addition, recession also added its part in the lower result of this position, because of its adverse impact to the foreign payments volume. Finally, the profits out of structured products were decimated, because there was hardly any sale of such products in 2009.

General administrative expenses with amortisation/depreciation were 6 % lower than in 2008. They comprise the costs of materials and services and the amortisation/depreciation charge for the year. The cost reduction is chiefly the result of Cost Management Programme launched by the VBI AG in February 2009.

The bank recognised impairments of EUR 5,334 thousand, in accordance with its internal policy of assessment of losses arising from the credit risk. The largest part were the risk provisions for the portfolio of best rated clients (grade A), since the Bank increased internal percentage for provisioning of that group. The second largest part are the risk provisions for the Istrabenz company.

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.

Banka Volksbank d.d. did not acquire any new capital, subscribed capital remains the same as in year 2008. It comprises 10,345,416 ordinary shares with a nominal value of EUR 4.17.

At the year-end 2009, share book value calculated based on the bank's total equity was EUR 6.62, up EUR 0.08 from a year ago.

Total equity slightly increased (+EUR 0.9 million) because of revaluation reserves and net profit.

Movements in equity items in 2009:

Equity	thousand EUR					
	31.12.2008	Structure	Change	31.12.2009	Structure	Index
Subscribed capital	43,140	64	0	43,140	63	100
Capital reserves	27,248	40	0	27,248	40	100
Revaluation reserves	-559	-1	527	-32	0	6
Reserves from profit (including retained earnings)	-2,125	-3	-67	-2,192	-3	103
Net profit or loss for the current year	-67	0	412	345	1	
Total equity	67,638	100	872	68,509	100	101

At year-end 2009, 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 582 sales outlets and 5,483 employees altogether.

The strategic owners of VBI are the French bank Banque Fédérale des Banques Populaires (24.5 %), the German bank DZ Bank AG (Frankfurt am Main) (16.4 %), and WGZ (Düsseldorf) (8.1 %), and the Austrian Volksbank AG (Vienna) (51 %).

SHAREHOLDERS AS AT 31 DECEMBER 2009

	in %
	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 2009, the bank stays at the same extent of a sales network as a year before. Its other branches in the capital comprise those at Gosposka, Miklošičeva, Vič 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 2009, the bank also made a renovation of the Miklošičeva branch and relocation of the Kranj branch.

CAPITAL INVESTMENTS

In 2009, the bank changed the platform for the central banking software. The new platform is more stable and more responsive, and at the same time we made an upgrade of the Oracle database.

With the intention of a centralized and controlled printing the bank bought a system called ID-Printing.

Together with Oracle experts, the bank also continued with the optimisation of the existing Oracle production database, and implementation of business processes in a document system.

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 2009, the primary objective of the organisation and information technology unit was software implementation within the following projects: ZPlaSS, SEPA SCT and SISBON.

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

- authorization of loans,
- processing of direct debit (NPI) through contractual bank,
- automation of STP outgoing payments,
- upgrading of the money laundry module,
- implementation of reminders process on transactional accounts for corporates,
- implementation of insolvent customers database.

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

Together with the ABRAXAS supplier, the bank upgraded reporting application, and with ADACTA supplier 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. A switchover to the secondary location was carried out in 2009.

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

For the first time since the foundation, the bank registered slight decrease in the number of employees in the year 2009. Dated December 31st 2008 the number of employees was 200 and on the year-end of 2009 the number of employees decreased to 194 (3 % decrease). The bank did not carry out employment reduction actively. The decreased number is a result of 2 employees retiring, time-limited contracts for 4 employees expired and other leavings (8 persons) were being replaced with new employments.

The average number of employees in 2009 was 193,8. Educational structure has also slightly improved compared to the year 2008, so that on the year-end of 2009 already 52 % of employees had at least higher education (3 % had postgraduate education, 40 % had university education, 9 % had higher education) and 48 % had secondary education.

In tendency towards reducing costs, the bank carried out Cost management program during the year 2009, within which we were amongst other saving programs compelled to reduce also the budget for training. Therefore we were faced with a challenge – how to find ways to enable necessary trainings for our employees to ensure their expertise and also to continue our quality service towards our customers despite reduced budget. Within this framework we were aiming to focus especially on trainings that were of the most importance for continual working process of the employees and we increased internal trainings and knowledge transference.

Employees participated in the following trainings:

- job-related trainings,
- leadership trainings for branchmanagers,
- trainings and workshops organized by VBAG and VBI,
- trainings aimed for obtaining required titles or licenses,
- German language course for employees and
- internal job-related trainings and knowledge transfer.

Four of our employees were enrolled in insurance licensed training and one was enrolled in investment fund training. All successfully finished trainings, passed the exams and gained the necessary licenses.

The bank also co-financed tuition fees for two employees in the previous year and is with this encouraging one's own employees to gain higher levels of education and additional competent knowledge.

KEY FACTS

	thousand EUR		
	2007	2008	2009
1. Balance sheet items (as at 31 December)			
Balance sheet total	618,327	866,182	903,931
Total deposits from non-banks	174,184	263,578	300,904
a) corporate deposits	110,070	161,221	209,227
b) household deposits	64,114	102,357	91,677
Total loans to non-banks	527,615	750,211	749,591
a) corporate loans	341,546	537,328	533,384
b) household loans	186,069	212,883	216,207
Total equity	48,045	67,638	68,509
Impairment and provisions	8,117	14,224	19,444
Off-balance sheet items	114,448	116,966	129,328
Average household deposits	65,698	77,391	101,422
Average household loans	169,694	203,711	212,967
2. Income statement items (for the year ended 31 December)			
Net interest income	12,060	16,009	15,378
Net non-interest income	2,708	3,122	2,329
Labour costs, general and administrative expenses	10,211	11,766	11,016
Amortisation/depreciation	708	827	843
Impairment and provisions	-823	-6,510	-5,393
Profit before tax	3,026	26	454
Income tax	-278	-93	-109
3. Number of employees (as at 31 December)			
	183	200	194
4. Shares (as at 31 December)			
Number of shareholders	34	30	30
Shares outstanding	7,524,542	10,345,416	10,345,416
Nominal value per share (EUR)	4.17	4.17	4.17
Book value per share (EUR)	6.32	6.54	6.62
5. Indicators (% , unless otherwise indicated)			
a) Equity			
Equity for capital adequacy purposes (thousand EUR)	59,866	93,520	92,513
Capital adequacy ratio	11.24	13.38	13.08
b) Asset quality			
Impairments as % of total credit risk exposure	1.09	1.49	2.07
c) Profitability			
Interest margin	2.24	2.13	1.84
Interest + non-interest margin	2.74	2.55	2.12
Return on assets	0.56	0	0.05
Return on equity before tax	8.43	0	0.67
Return on equity after tax	7.66	-0.13	0.51
d) Operating costs			
Operating expenses / average assets	2.03	1.45	1.42
e) Liquidity			
Average liquid assets / average short-term deposits from non-banks	17.91	13.64	14.98
Average liquid assets / average assets	5.78	3.56	4.41

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board acted in accordance with the Banking Act (ZBan-1, Official Gazette of the RS, no. 131/06, 1/08, 109/08, 19/09 and 98/09), Companies Act (ZGD-1, Official Gazette of the RS, no. 65/09 and 83/09), Regulation on the Diligence of Members of the Management and Supervisory Boards (Official Gazette of the RS, no. 28/07 and 70/09), the bank's Statute, and the bank's Rules on Procedure of the Supervisory Board.

In 2009, the Supervisory Board had the following members: Michel Ivanovsky, Chairman, Gerhard Wöber, Deputy Chairman, Thomas Capka, Fausto Maritan, David Vadnal and Jörg Langner (member since 9 June 2009). Five 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 2009, 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 through 2009. Attendance of members at the regular Supervisory Board's sessions was high, 78 % in total.

In the first half of 2009, the Supervisory Board focused mainly on the 2008 results of operations (and approved them), as well as on the internal audit's annual report (and approved its 2009 plan).

In accordance to the adopted Act on changes and completions of the Banking act (ZBan-1C, Official Gazette of the RS, no. 19/09), members of the Supervisory Board on their 51st regular meeting on 9 June 2009 set up the Audit Committee, which is constituted of three members of the Supervisory Board and one independent expert.

Throughout 2009, the Supervisory Board supervised implementation of the resolutions adopted by itself and the general assembly, 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 2009 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.

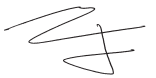
The 2009 annual report was audited by KPMG Slovenija. In their opinion, the 2008 financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, presented fairly, in all material aspects, the bank's financial position as at 31 December 2009, 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 2009 financial report prepared by the Managing Board, the Supervisory Board confirmed the 2009 annual report.

The Supervisory Board expresses its appreciation to the bank's Managing Board and employees for their achievements in 2009.

Ljubljana, April 2010

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 2009 and for the year then ended on pages 32–38, the notes thereto on pages 39–87, and the consolidated financial statements as at 31 December 2009 and for the year then ended on pages 90–96 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, 25 March 2010

mag. Gašpar Ogris – Martič



Chairman

Aleš Zajc, MBA



Deputy Chairman

mag. Johann Staudigl



Board Member

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE BANK BANKA VOLKSBANK D.D.

We have audited the accompanying financial statements of the bank Banka Volksbank d.d., which comprise the statement of financial position as at 31 December 2009, the income statement, the statement of comprehensive income, 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 misstatement.

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 bank Banka Volksbank d.d. as at 31 December 2009, its financial performance and its 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, 29 March 2010

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

Boris Drobnič, B.Sc.Ec.



Certified Auditor
Partner

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

ITEM DESCRIPTION	NOTES	in thousand EUR	
		CURRENT YEAR	PREVIOUS YEAR
Cash and cash balances with central banks	4	65.636	31.140
Financial assets held for trading	5	1.077	572
Available-for-sale financial assets	6	21.655	9.971
Loans and receivables	7	799.313	799.582
- loans and receivables to banks	7.1	49.722	49.372
- loans and receivables to non-bank customer	7.2	749.591	750.210
Held-to-maturity investments	8	3.083	6.071
Property, plant and equipment	9	8.666	8.423
Intangible assets	9	294	417
Investments in subsidiaries, associates and joint ventures	10	1.614	1.614
Tax assets	11	335	212
- current taxes		267	0
- deferred taxes		67	212
Other assets	12	2.258	8.180
TOTAL ASSETS (from 1 to 15)		903.931	866.182
Financial liabilities held for trading	13	1.137	630
Derivatives - hedge accounting	14	94	81
Financial liabilities measured at amortised cost	15	828.417	792.055
- deposits from banks	15.1	62.095	83.540
- deposits from non-banks	15.2	300.904	263.578
- loans and advances from banks	15.3	437.060	416.475
- subordinated liabilities	15.5	28.358	28.460
Provisions	16	380	368
Tax liabilities	17	0	415
- current tax liabilities		0	415
- deferred tax liabilities		0	0
Other Liabilities	18	5.393	4.995
TOTAL LIABILITIES (from 17 to 27)		835.421	798.544
Basic equity capital	19	43.140	43.140
Share premium account	19	27.248	27.248
Revaluation reserves	19	-32	-559
Reserves from profit (including retained earnings)	19	-2.192	-2.125
Profit or loss from current year	19	345	-67
TOTAL EQUITY (from 29 to 35)		68.509	67.638
TOTAL LIABILITIES AND EQUITY (28+36)		903.931	866.182

INCOME STATEMENT FOR THE PERIOD FROM 1 JAN TO 31 DEC 2009

ITEM DESCRIPTION	NOTES	AMOUNT	
		CURRENT YEAR	PREVIOUS YEAR
Interest income and similar income	22	31.686	46.087
Interest expenses and similar expenses	22	-16.308	-30.078
Net interest income (1 - 2)	22	15.378	16.009
Fee and commission income	24	2.776	2.951
Fee and commission expense	24	-1.055	-987
Net fee and commission income (5-6)	24	1.721	1.964
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	25	138	-310
Gains and losses on financial assets and liabilities held for trading	26	282	1.301
Exchange differences	27	136	-30
Gains and losses on derecognition of assets other than held for sale	28	-4	0
Other operating net income	29	56	197
Administration costs	30	-11.016	-11.766
Depreciation	31	-843	-827
Provisions	32	-59	-48
Impairment	32	-5.334	-6.462
TOTAL PROFIT AND LOSS BEFORE TAX FROM CONTINUING OPERATIONS (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 - 15 - 16 - 17 - 18 + 19 + 20 + 21)	33	454	26
Tax expense (income) related to profit and loss from continuing operations	33	-109	-93
TOTAL PROFIT AND LOSS AFTER TAX FROM CONTINUING OPERATIONS (22 - 23)	33	345	-67
Total profit or loss after tax from discontinued operations		0	0
NET PROFIT OR LOSS for the financial year (24 + 25)		345	-67
Basic earnings per share	19	0,03	-0,01
Diluted earnings per share	19	0,03	-0,01

STATEMENT OF COMPREHENSIVE INCOME FROM 1 JAN TO 31 DEC 2009

Item No.	ITEM DESCRIPTION	AMOUNT	
		CURRENT FINANC. YEAR	PREVIOUS FINANC. YEAR
1	NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	345	-67
2	OTHER COMPREHENSIVE INCOME AFTER TAX (3+4+5+10+14+18+19+20+21)	527	-341
3	Tangible assets	0	0
4	Intangible assets	0	0
5	Cash flow hedges (effective portion) (6+7+8+9)	0	0
6	Valuation gains (losses) taken to equity	0	0
7	Transferred to profit or loss	0	0
8	Transferred to initial carrying amount of hedged items	0	0
9	Other reclassifications	0	0
10	Available-for-sale financial assets (11+12+13)	667	-428
11	Valuation gains (losses) taken to equity	667	-428
12	Transferred to profit or loss	0	0
13	Other reclassifications	0	0
14	Non-current assets and disposal groups held for sale (15+16+17)	0	0
15	Valuation gains (losses) taken to equity	0	0
16	Transferred to profit or loss	0	0
17	Other reclassifications	0	0
18	Actuarial gains (losses) on defined benefit pensions plans	0	0
19	Share of other recognised comprehensive income of entities accounted for using the equity method	0	0
20	Other items	0	0
21	Income tax relating to components of other comprehensive income	-140	87
22	TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1 + 2)	872	-408

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 1 JAN TO 31 DEC 2009

in thousand EUR

No.	ITEM DESCRIPTION	Basic Equity	Share premium	Equity of the compound financial instruments	Revaluation reserves	Reserves from profit	Retained earnings or loss (including profit or loss from the current year)	Treasury shares (capital deduction item)	Total equity
1	OPENING BALANCE FOR THE REPORTING PERIOD	43,140	27,248	0	-559	6	-2,198	0	67,638
2	Comprehensive income for the financial year after tax	0	0		527	0	345		872
3	New share capital subscribed (paid)								0
4	Repayment of equity								0
5	Net purchase/sale of treasury shares								0
6	Appropriation of (accounting for) dividends/rewards in form of shares								0
7	Appropriation of (accounting for) dividends								0
8	Transfer of net profit to reserves from profit								0
9	Covering of the loss brought forward						0		0
10	Other								0
11	CLOSING BALANCE FOR THE REPORTING PERIOD	43,140	27,248		-32	6	-1,853	0	68,509

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 1 JAN TO 31 DEC 2008

in thousand EUR

No.	ITEM DESCRIPTION	Basic Equity	Share premium	Equity of the compound financial instruments	Revaluation reserves	Reserves from profit	Retained earnings or loss (including profit or loss from the current year)	Treasury shares (capital deduction item)	Total equity
1	OPENING BALANCE FOR THE REPORTING PERIOD	31.377	19.011	0	-218	6	-2.131	0	48.045
2	Comprehensive income for the financial year after tax	0	0	0	-341	0	-67	0	-408
3	New share capital subscribed (paid)	11.763	8.237						20.000
4	Repayment of equity								0
5	Net purchase/sale of treasury shares								0
6	Appropriation of (accounting for) dividends/rewards in form of shares								0
7	Appropriation of (accounting for) dividends								0
8	Transfer of net profit to reserves from profit								0
9	Covering of the loss brought forward						0		0
10	Other								0
11	CLOSING BALANCE FOR THE REPORTING PERIOD	43.140	27.248	0	-559	6	-2.198	0	67.638
12	BALANCE SHEET AVAILABLE PROFIT for financial year					6	-2.198		-2.192

**STATEMENT OF CASH FLOWS FOR THE PERIOD
FROM 1 JAN TO 31 DEC 2009**

		in thousand EUR	
		AMOUNT	
Designation	ITEM DESCRIPTION	CURRENT FINANCIAL YEAR	PREVIOUS FINANCIAL YEAR
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a)	Total profit or loss before tax	454	26
	Depreciation	843	827
	Impairments / (reversal of impairments) of financial assets held to maturity	5,334	6,462
	Impairments of tangible assets, investment property, intangible fixed assets and other assets	4	0
	Impairments of capital investments in subsidiaries, associates and joint venture (Negative goodwill)	0	0
	Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	0
	Net (gains) / losses from exchange differences	-466	29
	Net (gains) / losses from financial assets held to maturity	14	263
	Net (gains) / losses from sale of tangible assets and investment properties	0	-12
	Net (gains) / losses from sale of intangible assets	0	0
	Other (gains) / losses from investing activities	0	150
	Other (gains) / losses from financing activities	0	0
	Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	330	-12
	Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith	0	0
	Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)	667	0
	Net unrealised gains in revaluation reserves from hedging of cashflow against risks (excluding effect of deferred tax)	0	-341
	Other adjustments to total profit or loss before tax	747	-2,685
	Cash flow from operating activities before changes in operating assets and liabilities	7,927	4,707
b)	(Increases) / decreases in operating assets (excl.cash, cash equivalents)	-5,367	-215,705
	Net (increase) / decrease in balances with central banks	0	0
	Net (increase) / decrease in financial assets held for trading	0	0
	Net (increase) / decrease in financial assets designated at fair value through profit or loss	0	-553
	Net (increase) / decrease in financial assets available for sale	-12,405	4,692
	Net (increase) / decrease in loans and receivables	475	-213,320
	Net (increase) / decrease in assets-derivatives - hedge accounting	0	0
	Net (increase) / decrease in non-current assets held for sale	0	0
	Net (increase) / decrease in other asset	6,563	-6,524
c)	(Increases) / decreases in operating liabilities	35,808	208,297
	Net (increase) / decrease in financial liabilities to central bank	0	0
	Net (increase) / decrease in financial liabilities held for trading	0	630
	Net (increase) / decrease in financial liabilities designated at fair value through profit or loss	0	0
	Net (increase) / decrease in deposits, loans and receivables measured a amortised cost	35,437	204,931

		in thousand EUR	
		AMOUNT	
Designation	ITEM DESCRIPTION	CURRENT FINANCIAL YEAR	PREVIOUS FINANCIAL YEAR
	Net increase / (decrease) in debt instruments in issue measured at amortised cost	0	0
	Net (increase) / decrease in liability-derivative - hedge accounting	13	80
	Net (increase) / decrease in liabilities associated with non-current assets held for sale	0	0
	Net (increase) / decrease in other liabilities	358	2,656
č)	Cash flow from operating activities (a+b+c)	38,368	-2,701
d)	Income taxes (paid) refunded	-789	0
e)	Net cash flow from operating activities (č+d)	37,579	-2,701
B. CASHFLOWS FROM INVESTING ACTIVITIES			
a)	Receipts from investing activities	2,989	1
	Receipts from the sale of tangible assets and investment properties	0	1
	Receipts from the sale of intangible assets	0	0
	Receipts from the disposal of subsidiaries, associates, joint ventures	0	0
	Receipts from non-current assets or liabilities held for sale	0	0
	Receipts from the sale of financial assets held to maturity	2,989	0
	Other receipts from investing activities	0	0
b)	Cash payments on investing activities	983	878
	(Cash payments to acquire tangible assets and investment properties)	973	743
	(Cash payments to acquire intangible fixed assets)	10	135
	(Cash payment for the investment in subsidiaries, associates and joint ventures)	0	0
	(Cash outflow to non-current assets or liabilities held for sale)	0	0
	(Cash payments to acquire held to maturity investments)	0	0
	(Other cash payments related to investing activities)	0	0
c)	Net cash flow from investing activities (a-b)	2,006	-877
C. CASH FLOWS FROM FINANCING ACTIVITIES			
a)	Cash proceeds from financing activities	0	29,532
	Cash proceeds from subordinated liabilities issued	0	9,500
	Cash proceeds from issuing shares and other equity instruments	0	20,000
	Cash proceeds from the sale of treasury shares	0	0
	Other cash proceeds related to financial activities	0	32
b)	Cash payments on financing activities	0	0
	(Dividends paid)	0	0
	(Cash repayments of subordinated liabilities)	0	0
	(Cash payments to acquire treasury shares)	0	0
	(Other cash payments related to financial activities)	0	0
c)	Net cash flow from financing activities (a-b)	0	29,532
D.	Effects of change in exchange rates on cash and cash equivalents	330	-12
E.	Net increase in cash and cash equivalents (Ae+Bc+Cc)	39,585	25,954
F.	Opening balance of cash and cash equivalents	74,800	48,858
G.	Closing balance of cash and cash equivalents (D+E+F)	114,715	74,800

**Notes to
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.

a) Statement of compliance

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

b) 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.

c) 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.

Changes of accounting policies

In accordance with changes of IAS 1 – Presentation of Financial Statements, which are valid from 1.1. 2009, the data in financial statements are to be combined on the basis of common characteristics presented in Statement of Comprehensive Income, which substituted Income statement. Statement of Comprehensive Income is divided in two separate statements: Income Statement and Statement of Other Comprehensive Income. The presentation of positions of net profit has no influence on its content or better on the net profit for the financial year.

Revised IAS 23 – Borrowing Costs, valid from 1 January 2009; states that Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalised.

The Bank acquires fixed assets solely by own means of financing, that is why no costs of borrowing can be attributable to the acquisition, construction or production of the assets under development.

d) 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.

e) 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.

f) 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.

g) 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

The useful life in 2009 did not change and it is the same as in 2008.

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.

h) 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.

This is the period of time over which an asset is expected to be used by the bank, and is the following:

- licences from 5 to 10 years

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

i) Investment property

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

j) 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 other comprehensive income, 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.

k) 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.

l) 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 other comprehensive income. If there is objective evidence of impairment, any accumulated losses so recognised must be reversed through profit or loss.

m) 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.

n) 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.

o) 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 or loss.

p) 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.

r) 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.

s) 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 (severance 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 severance 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.

t) 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.

u) 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.)

v) Dividends

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

z) 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.

aa) 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.

ab) 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.

ac) 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.

ad) 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 21 % (for 2009).

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 20 % that will apply to the financial year 2010.

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 other comprehensive income.

ae) 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.

af) Employee benefits

Employment benefits include retirement and anniversary bonuses. Provisions for employee benefits are calculated by an independent actuary. In 2009, they were estimated based on the latest employee data, using the following assumptions:

- interest rate: 5.25 %,
- 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.

ag) 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.

ah) 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.

ai) 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.

aj) 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.

ak) 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.

al) 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.

am) New standards and interpretations not yet adopted

A number of new standards, amendments and interpretations are not yet effective for the year ended 31 December 2009, and have not yet been applied in preparing these financial statements.

Revised IFRS 3 Business Combinations. The scope of the standard was extended and definition of a business has been broadened. The revised standard comprises many other changes such as: All forms of purchase money which acquirer transfers are recognized and measured by fair value on the acquirement date. This includes also contingency considerations. The changed amount payable is recognised in profit or loss. Transaction costs, other than share and debt issue cost, will be expensed as incurred. Any non-controlling (minority) interest can be measured at either fair value on the acquirement date (full goodwill), or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 has no influence on Bank's business, because the Bank has no shares in dependent companies, which would be affected by the changes mentioned. The Revised Standard is applicable for the period after 1 July 2009.

Amended IAS 27 Consolidated and Separate Financial Statements considers the expression minority interest which is substituted by the expression non-controlling share and is defined as equity share in subsidiary not owned by controlling company neither directly nor indirectly. Furthermore, the amended Standard changed the treatment of non-controlling share, loss of control in a subsidiary and the division of profit or loss and other comprehensive income between controlling and non-controlling share.

The Bank is still analyzing the effects of the amendment. The amended Standard is effective from 1 July 2009.

Amendments to IAS 32 Financial Instruments: Presentation – Puttable Financial Instruments

The amendment allows that rights, options and discounts to acquire a certain amount of own capital instruments are exchanged for a certain amount of capital instruments in any currency, if the company offers the proportionate rights, options and discounts in the form of own non-derivative capital instruments to all its owners of certain class.

Amendments to IAS 32 are not important for the Bank, since it did not issue such instruments in the past. The amended Standard is effective for the period after 1 February 2010.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. To check the eligibility specific risks or portions of cash flows have to be recognized and measured separately. Inflation can be designated in hedging relationship only in rare circumstances.

The Bank is still analyzing the effects of the amendment. The amended Standard is effective from 1 July 2010.

IFRIC 12 Service Concession Arrangements. Interpretation is intended for private sector companies to define recognition and measurement of matters which arise when accounting for service concession arrangements in public – private partnership.

IFRIC 12 is not important for the Bank's business, because the Bank did not enter in any service concession agreement. The Interpretation is valid for the period after 1 April 2009.

IFRIC 15 – Agreements for the Construction of Real Estate. Defines that the revenues coming from Agreements for the Construction of Real Estate are to be recognised already in construction process in the following cases:

An agreement for the construction of real estate is a construction contract within the scope of IAS 11.3; the contract applies only for construction services in accordance with IAS 18 (e.g. the company is not obliged to provide construction material); the contract covers sale of goods, revenues are recognised during the construction process in accordance with IAS 18.4.

In remaining cases revenue is recognised after all conditions for revenue recognition are fulfilled as requested by IAS 18.14 (e.g. at completion or after delivery). Interpretation IFRIC 15 is not relevant for the Bank, since the Bank does not provide services of Real estate construction and does not develop real estates for the purpose of sale. The Interpretation is valid for the periods after 1 January 2010.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation defines risks, which ought to be hedged and which group company is allowed to book hedged item, clarifies how consolidation method impacts hedge effectiveness and also determines the forms of hedging instruments and which amounts are to be reclassified from equity into income statement in case of close of foreign operation.

The Bank has no financial investments in foreign companies, therefore IFRIC 16 has no effect in financial statements. The Interpretation is valid for the periods after 1 July 2009.

IFRIC 17 – Distributions of Non-cash Assets to Owners

It applies when non-cash assets are distributed to owner. A dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. An entity should measure the dividend payable at the fair value of the net assets to be distributed. An entity should remeasure the liability at each reporting date and at settlement, with changes recognised directly in equity. An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

As the interpretation takes effect from the adoption date on, it would not affect the financial statements prior to the acceptance date. Moreover, the interpretation concerns future dividend, which are going to be a subject of management / shareholders judgement in the future, so the effect of the interpretation cannot be estimated. The Interpretation is valid for the periods after 1 November 2009.

IFRIC 18 Transfers of Assets from Customers

According to interpretation the company has to recognize transferred asset at fair value, if the asset has characteristics of property, plant or equipment as defined in IAS 16, Property, Plant and Equipment. In addition, the company has to recognize

the amount of transfer as revenue. The period over which revenue is recognized depends on conditions of each individual arrangement.

IFRIC 18 is not relevant for Bank's Financial Statements, since the Bank usually does not transfer assets from its customers. The Interpretation is valid for the periods after 1 November 2009.

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 AS AT 31 DECEMBER

thousand EUR

	Loans and advances to non-banks		Loans and advances to banks		Securities	
	2009	2008	2009	2008	2009	2008
1 Loans and advances: impaired						
a) Individually impaired:						
Gross amount	38,937	6,942	7,000	7,000		
Impairment amount	4,066	2,152	6,356	6,300		
Net amount	34,871	4,790	644	700		
b) Collectively impaired:						
Grade B	5,980	2,228				
Grade C	3,328	736				
Grade D	812	1,087				
Grade E	4,522	3,921				
Gross amount	14,642	7,972				
Impairment amount	5,849	4,851				
Net amount	8,793	3,121				
2 Loans and advances: overdue, not impaired						
a) Total loans and advances overdue:	25,994	21,481				
Gross amount	25,994	21,481				
Net amount						
b) Loans and advances by days overdue:	11,372	14,061				
30–60 days	3,889	3,127				
60–90 days	3,829	1,600				
90–180 days	6,905	2,693				
180 days +						
3 Loans and advances: current, not impaired						
Gross amount	682,718	721,371	49,078	48,672	24,737	16,042
Collective impairment amount (for the unidentified risks)	2,786	553				
Net amount	679,933	720,818	49,078	48,672	24,737	16,042
Total gross amount of loans and advances	762,292	757,766	56,078	55,672	24,737	16,042
Total net amount of loans and advances	749,591	750,210	49,722	49,372	24,737	16,042

Source: »RAZ 1« report as at 31 December 2008 and 2009, 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 2009		
Grade 2P – contractual interest is recognised	3,521	3,083
Grade 3P – contractual interest is not recognised	35,416	31,789
Total	38,937	34,871
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

LOANS AND ADVANCES BY COLLATERAL SUBMITTED AS AT 31 DECEMBER

thousand EUR

Collateral type	Loans and advances to non-banks		Loans and advances to banks	
	2009	2008	2009	2008
Individual impairment				
Property	6,743	5,676	-	-
Other	23,750	1,028	-	-
Collective impairment	-	-	-	-
Property	8,387	4,316	-	-
Shares	301	30	-	-
Other	474	794	-	-
Overdue, not impaired	-	-	-	-
Property	22,314	12,571	-	-
Shares	212	1,752	-	-
Other	1,215	5,368	-	-
Current, not impaired	-	-	-	-
Property	449,955	384,570	-	-
Shares	19,917	16,790	-	-
Other	66,691	147,734	-	-
Without collateral	149,631	169,581	49,722	49,372
TOTAL	749,591	750,210	49,722	49,372

CREDIT RISK BY SECTOR AND GEOGRAPHIC AREA AS AT 31 DECEMBER

thousand EUR

	Loans and advances to non-banks		Loans and advances to banks	
	2009	2008	2009	2008
TOTAL	749,591	750,210	49,722	49,372
SECTOR				
Companies	529,690	533,772	-	-
Municipalities	3,694	3,656	-	-
Banks	-	-	49,722	49,372
Households	216,207	212,783	-	-
GEOGRAPHIC AREA				
Slovenia	715,382	718,938	-	99
Austria	-	4	47,507	42,842
CEE	33,588	31,039	57	5,051
Other	622	230	2,158	1,380

thousand EUR

	Available-for-sale financial assets	
	2009	2008
Total	21,655	9,971
SECTOR		
Companies	2,783	2,932
State	13,065	-
Banks	5,807	7,039
GEOGRAPHIC AREA		
Slovenia	19,324	5,058
Austria	-	966
CEE	-	-
Other	2,331	3,947

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

	2009	2008
	1.75	1.35
Average for the period	1.62	1.36
Maximum value	2.28	1.67
Minimum value	1.29	1.11

MATURITY OF UNDISCOUNTED CASH FLOWS

31 December 2009

	thousand EUR						
	Carrying amount	Gross amount	On demand	Up to 3 months	Up to 2 months	Up to 5 years	Over 5 years
Amounts owed to banks	499,155	545,191	245	70,255	12,056	237,191	225,444
Amounts owed to non-banks	300,904	302,725	126,994	97,763	73,858	3,683	427
Subordinated liabilities	28,358	32,554	0	106	317	12,240	19,891
Derivatives (credit/debit)	1,231	1,320	0	173	144	831	172
Unused credit lines	70,011	70,011	0	0	5,589	58,519	5,903

31 December 2008

	thousand EUR						
	Carrying amount	Gross amount	On demand	Up to 3 months	Up to 2 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

FINANCIAL POSITION STRUCTURE BY MATURITY

	thousand EUR	
	31 Dec 2009	31 Dec 2008
ASSETS	903,931	866,182
- on demand	73,958	56,730
- up to 1 month	70,706	50,167
- from 1 to 3 months	54,851	102,607
- from 3 to 12 months	186,172	187,413
- from 1 to 5 years	303,601	297,370
- over 5 years	214,643	171,895
LIABILITIES	903,931	866,182
- on demand	127,278	67,247
- up to 1 month	61,879	106,837
- from 1 to 3 months	110,963	111,768
- from 3 to 12 months	79,765	112,075
- from 1 to 5 years	220,573	135,684
- over 5 years	303,473	332,571

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.

According to 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 decree 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.

FINANCIAL POSITION STRUCTURE BY FOREIGN EXCHANGE RISK

	thousand EUR	
	31 Dec 2009	31 Dec 2008
ASSETS	903,931	866,182
- EUR	802,175	728,720
- EUR with foreign currency indexation clause	40,363	46,056
- foreign currencies	61,392	91,406
LIABILITIES	903,931	866,182
- EUR	802,725	728,554
- EUR with foreign currency indexation clause	353	284
- foreign currencies	100,853	137,344

At year-end 2009, the bank's total exposure to currency risk was EUR 1,030 thousand or 1.11 % 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.

ANNUAL INTEREST RATE SENSITIVITY ANALYSIS

	thousand EUR	
	increase by 100 bp	decrease by 100 bp
2009		
31 December	2,087	-2,087
Average for the period	972	-972
Maximum for the period	2,135	-2,135
Minimum for the period	376	-376
2008		
31 December		
Average for the period	1,255	-1,255
Maximum for the period	572	-572
Minimum for the period	1,255	-1,255

EXPOSURE TO INTEREST RATE RISK

31 December 2009

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	65,636	12,636	53,000	0	0	0
Loans to banks	49,722	49,722	0	0	0	0
Loans and advances to non-banks	749,591	3,539	539,284	183,697	11,994	11,077
Available-for-sale financial assets	21,655	1,260	805	6,525	3,525	9,540
Held-to-maturity financial assets	3,083	0	0	3,083	0	0
Loans and deposits from banks	499,155	4,223	430,607	64,325	0	0
Deposits from non-banks	300,904	126,994	97,922	72,446	3,427	115
Subordinated liabilities	28,358	0	18,358	10,000	0	0

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

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 and Risk & Control Self Assessment to identify and assess possible material operational risk. The bank monthly controls the Key Risk Indicators, which showed a low and acceptable level in 2009. 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.

In February 2009, the bank started, within the concern, to use the integral tool BART for capturing, control, assessing, analysing and reporting of operational risk. In the year 2009 the bank had a loss amount of EUR 47,499 from operational risk loss events.

3.5 FAIR VALUE OF ASSETS AND LIABILITIES

thousand EUR

	31 December 2009		31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances to banks	49,722	49,722	49,372	49,372
Loans and advances to non-banks	749,591	749,591	750,210	750,736
Short-term	115,470	115,470	185,934	185,934
Long-term	634,121	634,880	564,276	564,802
Available-for-sale financial assets	21,655	21,655	9,971	9,971
Held-to-maturity financial assets	3,083	3,083	6,071	6,071
Deposits from banks	62,095	62,095	83,540	83,540
Loans from banks	437,060	437,060	416,476	416,476
Deposits from non-banks	300,904	300,904	263,578	263,578

In 2008 and 2009, the fair value of long-term loans was above their carrying amount. 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 0.70 % at year-end 2009 (down almost 4 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 2009.

FAIR VALUE HIEARCHY AS AT 31 DECEMBER 2009

	Level 1	Level 2	Total
Financial assets held for trading		1,077	1,077
Loans and receivables		2,211	2,211
Available-for-sale financial assets	21,655		21,655
Total fair value assets	21,655	3,288	24,943
Financial liabilities held for trading		1,137	1,137
Derivatives - hedge accounting		94	94
Total fair value liabilities		1,231	1,231

According to IFRS 7 the Bank classified fair value measurements into fair value hierarchy with the following levels:

Level 1 – quoted prices in active markets for identical assets and liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices on less active markets) or indirectly (i.e. derived from quoted prices and prices on less active markets.);

Level 3 – inputs of the assets or liability that are not observable market data (unobservable inputs).

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	
	31 Dec 2009	31 Dec 2008
CORE CAPITAL (TIER I)	68,209	67,221
Subscribed capital	43,141	43,141
Capital reserves	27,248	27,248
Deductions from tier I:		
Reserves and retained earnings	-1,848	-2,192
Intangible assets	-294	-417
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	0
Revaluation reserves	-38	-559
BANK'S ADDITIONAL CAPITAL (TIER II)	24,305	26,300
Hybrid instruments and cumulative preference shares	6,005	6,000
Subordinated loan	18,300	20,300
DEDUCTIONS FROM TIER I AND TIER II	0	0
Investments in other credit or financial institutions (>10%)	0	0
BANK'S OWN FUNDS (for solvency purposes)	92,514	93,521
RISK-WEIGHTED ASSETS (on- and off-balance sheet items)		
RISK-WEIGHTED ASSETS (on-balance sheet items)	650.383	644.792
with 0-% weighting – unweighted value	85,520	39,662
weighted value	0	0
with 20-% weighting – unweighted value	797	6,372
weighted value	159	1,274
with 35-% weighting – unweighted value	5,759	3,383
weighted value	2,016	1,184
with 50-% weighting – unweighted value	97,284	85,636
weighted value	48,642	42,818
with 75-% weighting – unweighted value	248,936	271,083
weighted value	186,702	203,312
with 100-% weighting – unweighted value	375,158	382,799
weighted value	375,158	382,799
with 150-% weighting – unweighted value	25,137	8,936
weighted value	37,706	13,404
Risk-weighted off-balance sheet items	29,294	31,537
Off-balance sheet items – unweighted	93,520	93,998
TOTAL RISK-WEIGHTED ASSETS	679,677	676,329
CAPITAL ADEQUACY		
Capital requirement for credit risk (risk-weighted assets * 0.08)	54,374	54,106
Capital requirement for operational risk	2,203	1,791
Total capital requirement	56,577	55,897
SOLVENCY RATIO (%): bank's own funds / (total capital requirement / 0.08)	13.08%	13.38%

4. CASH AND BALANCES WITH CENTRAL BANK

	thousand EUR			
	31 December 2009		31 December 2008	
	EUR	foreign currencies	EUR	foreign currencies
Cash on hand	2,536	565	2,392	435
Deposits with central bank	62,535	0	28,313	0
Total	65,071	565	30,705	435
Total (EUR and foreign currencies)	65,636		31,140	

Deposits with the central bank relate to balances in the settlement account (EUR 9,145 thousand) and in other accounts opened with the central bank (EUR 53,390 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 4,900,484 on average in 2009 (2008: EUR 3,696,594), which the bank always met and exceeded.

5. FINANCIAL ASSETS HELD FOR TRADING

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Exchange rate related transactions	570	572
Interest rate related transactions	49	0
Others	458	0
Financial assets held for trading	1,077	572

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

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Equity securities: non-marketable	1,260	1,260
Debt securities: marketable	20,395	8,711
TOTAL	21,655	9,971

6.1 SHARES AND INTERESTS AT COST – NON-MARKETABLE

	thousand EUR	
	31 Dec 2009	31 Dec 2008
VBS Leasing d.o.o. Ljubljana	1,246	1,246
Bankart d.o.o. Ljubljana	11	11
S.W.I.F.T. Belgium	3	3
TOTAL	1,260	1,260

6.2 AVAILABLE-FOR-SALE DEBT SECURITIES – MARKETABLE

Structure by currency

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Foreign currencies	337	876
Bonds issued by foreign banks	337	876
EUR	20,057	7,834
Bonds issued by governments of Member States	14,587	1,517
Bonds issued by local banks	5,002	3,646
Bonds issued by foreign banks	468	1,551
Bonds issued by ÖVAG	0	966
Other long-term bonds	0	154
Total available-for-sale debt securities	20,395	8,711

Structure by listed-unlisted

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Listed	20,395	8,711
Bonds	20,395	8,557
Other	0	154
Total	20,395	8,711

Fair value measurement

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Cost	20,011	9,371
Interest (receivables, accruals)	424	47
Fair value revaluation	-40	-707
Carrying amount	20,395	8,711

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 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 of reclassified instruments

	thousand EUR	
	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 31 Dec 2008	700	700
Lehman Brothers	300	300
Landsbanki	400	400
On balance sheet date 31 Dec 2009	644	644
Lehman Brothers	444	444
Landsbanki	200	200

Effect of reclassified financial assets on profit/loss and comprehensive income

	thousand EUR			
	2009		2008	
Before reclassification	Profit or Loss	Comprehensive income	Profit or Loss	Comprehensive income
Interest	-	-	252	-
Change in fair value	-	-	-	-538

	thousand EUR			
	2009		2008	
After reclassification	Profit or Loss	Comprehensive income	Profit or Loss	Comprehensive income
Impairment	-56	-	-6,300	-

Total effect of reclassified financial assets on profit/loss and comprehensive income

	thousand EUR			
	2009		2008	
	Profit or Loss	Comprehensive income	Profit or Loss	Comprehensive income
Interest	-	-	-41	-
Change in fair value	-	-	-	701

7. LOANS

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Loans to banks	49,722	49,372
Loans to non-banks	749,591	750,210
Total	799,313	799,582

7.1 LOANS TO BANKS

Structure by maturity

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Repayable on demand	49,078	43,661
EUR	47,340	40,678
Foreign currencies	1,739	2,983
Short-term	0	5,011
EUR	0	5,011
Foreign currencies	0	0
Long-term	644	700
EUR	644	700
Total loans to banks	49,722	49,372

Structure by geographic area

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Slovenia	0	0
Other countries	49,722	49,372
TOTAL	49,722	49,372

7.2 LOANS TO NON-BANKS

Structure by clients

	31 December 2009		31 December 2008	
	Short-term	Long-term	Short-term	Long-term
EUR	116,975	587,035	178,934	492,351
- non-financial companies	96,022	352,027	155,863	267,330
- the state	101	3,410	101	3,944
- other financial organisations	10,630	25,936	9,974	28,947
- households	7,339	172,595	10,253	164,242
- non-profit service providers	70	1,537	17	1,086
- non-residents	2,813	31,530	2,728	26,802
Foreign currencies	885	57,398	8,785	77,673
- non-financial companies	777	22,303	6,973	40,542
- the state	0	800	0	882
- households	107	34,294	107	36,249
- non-residents	0	0	1,705	0
Allowances	-2,390	-10,311	-1,785	-5,747
Total	115,469	634,122	185,934	564,276
Total loans to non-banks	749,591		750,210	

Structure by sectors

	31 December 2009		31 December 2008	
- non-financial companies		471,129		470,708
- the state		4,312		4,926
- other financial organisations		36,566		38,921
- households		214,336		210,850
- non-profit service providers		1,607		1,103
- non-residents		34,344		31,234
Allowances		-12,702		-7,532
Total		749,591		750,210

First-class collateral

First-class collateral as at year-end 2009 by risk grade::

	thousand EUR						Total
	A	B	C	D	E	P	
Bank deposits	35,589	0	0	0	0	22,571	58,160
Guarantees from the government	0	0	0	0	0	0	0
Guarantees from first-class foreign banks	3,339	0	0	0	0	0	3,339
Securities from first-class banks	0	0	0	0	0	0	0
Total	38,928	0	0	0	0	22,571	61,499

Appropriate collateral – mortgage

As at 31 December 2009 the bank has EUR 491,693 thousand of loans insured by means of a mortgage in its gross loan portfolio.

As at 31 December 2008 the bank had EUR 407,134 thousand of loans insured by means of a mortgage in its gross loan portfolio.

7.3 ALLOWANCES FOR IMPAIRMENT BY TYPE OF RECEIVABLES AND LOANS

Movements in allowances for impairment in 2009:

	thousand EUR			
	Loans to non-banks	Loans to banks	Other	Total
1 January	7,532	6,300	24	13,856
Share of total claims (%)	0.94	0.79	0.30	
Formed	7,708	56	1	7,765
Released	-2,538	0	-19	-2,557
31 December	12,702	6,356	6	19,064
Share of total claims (%)	1.59	0.80	0.27	

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

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	

8. HELD-TO-MATURITY DEBT SECURITIES

Structure by currency

	thousand EUR	
	31 Dec 2009	31 Dec 2008
In EUR	3,083	6,068
Bonds ÖVAG	3,083	6,068
Total	3,083	6,068

Structure by listed-unlisted

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Listed	3,083	6,068
Bonds ÖVAG	3,083	6,068
Total	3,083	6,068

9. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2009

	thousand EUR							
	Land and buildings	Equipment	Assets under construction	Total Tangible assets	Intangible assets	Intangible assets in preparation	Total Intangible assets	Grand Total
Initial cost								
Balance 01.01.2009	7,212	4,997	16	12,225	1,587	42	1,629	13,854
Additions	76	390	982	1,448	10	10	20	1,468
Disposals	0	-267	-475	-742	0	-26	-26	-768
Correction (+,-)	18	-20	0	-2	2	0	2	
Balance 31.12.2009	7,306	5,100	523	12,929	1,599	26	1,625	14,554
Accumulated Depreciation								
Balance 01.01.2009	1,155	2,646	0	3,801	1,213	0	1,213	5,014
Accumulated Depreciation	164	562	0	726	117	0	117	843
Sales	0	4	0	4	0	0	0	4
Disposals	0	-267	0	-267	0	0	0	-267
Correction (+,-)	0	-2	0	-2	2	0	2	
Balance 31.12.2009	1,319	2,945	0	4,262	1,330	0	1,332	5,594
Carrying amount								
31.12.2008	6,057	2,351	16	8,424	374	42	416	8,840
31.12.2009	5,987	2,155	523	8,667	269	26	295	8,960

Movements in property, plant and equipment in 2008

	thousand EUR							
	Land and buildings	Equipment	Assets under construction	Total Tangible assets	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

10. LONG-TERM INVESTMENTS IN SUBSIDIARIES

Long-term investment in Group members as at 31 December 2009

thousand EUR

	Investment amount	Participatio percentage	Voting rights percentage	Subscribed capital	Profit for the year
Privatinvest d.o.o. Ljubljana	1,614	100	100	2,296	-180
Total	1,614				

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

thousand EUR

	Investment amount	Participatio percentage	Voting rights percentage	Subscribed capital	Profit for the year
Privatinvest d.o.o. Ljubljana	1.614	100	100	2.296	1
Skupaj	1.614				

11. TAX ASSETS

thousand EUR

	31 Dec 2009	31 Dec 2008
TAX ASSETS	335	212
Current tax assets	267	0
Deferred tax assets	67	212

Current tax assets represent the overpaid tax from profit during the year 2009. The bank was paying higher tax advances than it would be necessary with regard to final profit of the year. After filing of the tax statement the bank is going to receive the prepayment back from the tax authorities.

Deferred tax assets arise from non-deductible provisions for employee benefits, other non-deductible provisions, and from negative valuation of available-for-sale securities. Compared to 2008, they decreased, mainly due to revaluation of available-for-sale securities. When calculating deferred tax for 2009, the bank applied the 20 % tax rate applicable in 2010, while in 2008, it applied the 21 % tax rate applicable in 2009.

MOVEMENTS IN DEFERRED TAX IN 2009 AND 2008

thousand EUR

	Opening balance	Through profit or loss	Through comprehensive income	Closing balance
31 Dec 2009	-212	-5	-140	-67
31 Dec 2008	-207	-93	88	-212

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

DEFERRED TAX FROM CHANGE IN FAIR VALUE OF SECURITIES

thousand EUR

	31 Dec 2009	31 Dec 2008	31 Dec 2007
Net deferred tax as at 31 December	8	148	61
Fair value revaluation	-40	-707	-279
Revaluation reserve as at 31 December	-32	-559	-218
Deferred tax – changes in comprehensive income	-140	88	65

12. OTHER ASSETS

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Receivables for fees and commissions	28	31
Trade receivables	47	60
Receivables for advances	0	21
Inventories of material	97	97
Other receivables	1,931	7,867
- trading with foreign currency	1,001	717
- other receivables	930	7,149
Deferred expenses and accrued income	155	104
Total	2,258	8,180

13. FINANCIAL LIABILITIES FROM DERIVATIVES (HELD FOR TRADING)

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Exchange rate related transactions	554	543
Interest rate related transactions	142	87
Others	441	0
Financial liabilities held for trading	1,137	630

14. FINANCIAL LIABILITIES FROM DERIVATIVES (HEDGE ACCOUNTING)

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Derivatives eligible for hedge accounting	94	81
Interest rate swap	94	81

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 2009, the carrying amount of the underlying loan was EUR 2,3 million, while the fair value of the hedge was minus EUR 94 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 2009	31 Dec 2008
Demand deposits	27,245	39,003
- EUR	27,231	2,163
- Foreign currencies	14	36,840
Deposits with agreed maturity	34,850	44,537
Short-term	34,850	44,537
- EUR	33,376	44,459
- Foreign currencies	1,473	78
Long-term	0	0
- EUR	0	0
Total	62,095	83,540

15.2 DEPOSITS FROM NON-BANKS

Structure by type, currency and maturity

	31 December 2009			31 December 2008		
	EUR	Foreign currency	Total	EUR	Foreign currency	Total
Demand deposits	129,258	1,373	130,631	64,678	1,656	66,334
Companies	58,907	366	59,273	26,336	374	26,711
Households	66,390	953	67,343	36,203	922	37,125
Non-profitable service providers	461	8	468	674	1	675
Other financial institutions	1,963	0	1,963	356	0	356
Non-residents	1,537	46	1,583	1,108	358	1,466
Deposits with agreed maturity	169,742	531	170,273	195,595	1,649	197,245
Short-term deposits	160,418	416	160,833	182,279	1,485	183,764
Companies	26,542	34	26,576	42,811	420	43,231
Households	16,222	351	16,573	53,907	1,040	54,947
Public sector	102,303	0	102,303	59,369	0	59,369
Non-profitable service providers	461	0	461	1,532	0	1,532
Other financial institutions	13,808	0	13,808	23,563	0	23,563
Non-residents	1,082	31	1,113	1,097	25	1,122
Long-term deposits	9,324	116	9,440	13,316	165	13,481
Companies	821	0	821	1,250	0	1,250
Households	7,674	87	7,761	10,148	136	10,284
Public sector	189	0	189	80	0	80
Other financial institutions	0	29	29	1,343	29	1,372
Non-residents	640	0	640	494	0	494
TOTAL	298,999	1,905	300,904	260,273	3,305	263,578

15.3 BORROWINGS

Structure by type, currency and maturity

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Total loans	437,060	416,476
Long-term loans from banks	437,060	416,476
- EUR	339,601	319,571
- Foreign currencies	97,459	96,905

15.4 DEBT INSTRUMENTS

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

15.5 SUBORDINATED LIABILITIES

Structure

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Subordinated liabilities to non-residents in EUR	28,358	28,461
Total	28,358	28,461

On its total subordinated liabilities, the bank paid EUR 692 thousand of interest.

16. LONG-TERM PROVISIONS

Structure

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Pending lawsuits	46	28
Employee benefits	328	290
Off-balance sheet liabilities	6	23
Other provisions	0	26
Total	380	368

Movements

Movements in 2009

	thousand EUR				
	Off-balance sheet liabilities	Employee benefits	Other	Pending lawsuits	Total
1 January	24	290	26	28	368
Increases	157	66	3	18	244
Decreases	-175	-28	-29	0	-232
31 December	6	328	0	46	380

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

17. TAX LIABILITIES

	thousand EUR	
	31 Dec 2009	31 Dec 2008
TAX LIABILITIES	0	415
Current tax liabilities	0	415
Deferred tax liabilities	0	0

18. OTHER LIABILITIES

	thousand EUR	
	31 Dec 2009	31 Dec 2008
Fees and commissions payable	7	6
Other liabilities:	4,738	4,471
trade payables	360	702
Salaries	424	413
taxes and contributions	124	121
liabilities to households	59	55
trading with foreign currency	1,136	891
other liabilities	2,635	2,288
Accrued expenses and deferred income	648	518
Total	5,393	4,995

Under position "other liabilities" we can find payment obligation for the bonds bought for bank book in the amount of EUR 2.027 thousand, liabilities from trading with options in the amount of EUR 390 thousand and other liabilities in the amount of EUR 214 thousand.

19. EQUITY

Subscribed capital comprises 10,345,416 ordinary shares with 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.

Fair value reserves stood at minus EUR 32 thousand as at year-end 2009. In accordance with IAS 39, revaluation reserves arise on fair value revaluation of available-for-sale financial assets. Compared to year-end 2008, when they stood at minus EUR 559 thousand. The bank sold some of bonds from other banks and bought state bonds, which had positive impact.

ACCUMULATED PROFIT FOR 2009

	thousand EUR
Net profit or loss for the current year	345
Net profit or loss carried forward	-2,192
= accumulated net loss appropriated by the general meeting:	-1,847
- carried forward to the following year	-1,847

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

At the year-end 2009, share book value calculated based on the bank's total equity was EUR 6.62, up EUR 0.08 from a year ago.

Profit per share was EUR 0.03 EUR.

	v EUR	
	31 December 2009	31 December 2008
Profit or loss after tax	345,112	-67,013
Shares outstanding	10,345,416	10,345,416
Basic earnings per share	0.03	-0.01
Diluted earnings per share	0.03	-0.01

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	
	31 Dec 2009	31 Dec 2008
Performance guarantees	5,681	7,232
-short-term	1,906	1,197
-long-term	3,775	6,035
Financial guarantees	17,501	16,237
-short-term	4,330	4,188
-long-term	13,171	12,049
Financial assets as collateral with Banka Slovenije	17,608	5,167
Letters of credit	767	473
Commitments	70,210	74,795
Derivative instruments	17,561	13,062
Total risky items	129,328	116,967
Depositories and other records of securities	17,635	21,360
Records of written-off receivables	78	106
Other off-balance sheet commitments	2,304,350	1,891,527
Total risk-free items	2,322,063	1,912,993
Total off-balance sheet items	2,451,391	2,029,960

As at year-end 2009, the bank had off-balance sheet items involving some risk of EUR 129,328 thousand, and off-balance sheet items involving no risk of EUR 2,451,391 thousand.

22. NET INTEREST AND SIMILAR INCOME AND EXPENSES

By source

	thousand EUR	
	2009	2008
Net interest income	15,378	16,008
Income	31,686	46,086
Deposits at central bank	107	174
Financial assets held for trading	177	239
Derivatives (hedge accounting)	0	4
Available-for-sale financial assets	594	654
Loans and receivables (including finance leases)	30,549	44,896
Held-to-maturity financial assets	256	89
Other financial assets	3	30
Expenses	-16,308	-30,078
Financial liabilities held for trading	-320	-231
Derivatives (hedge accounting)	0	-3
Financial liabilities at amortised cost	-15,988	-29,844

By type

	thousand EUR			
	2009		2008	
	Income	Expenses	Income	Expenses
Regular	29,901	16,308	43,855	30,078
Default	427	0	760	0
Accrued fees similar to interest	1,358	0	1,471	0
Total	31,686	16,308	46,086	30,078

23. DIVIDEND INCOME

The bank did not receive any dividends in 2008 and 2009.

24. NET FEE AND COMMISSION INCOME

	thousand EUR	
	2009	2008
INCOME	2,776	2,951
Guarantees	611	579
Domestic payments	268	385
International payments	148	185
Agency and fiduciary business	22	164
Securities transactions on behalf of clients	57	42
Credit operations	1,670	1,596
Administrative services	2,776	2,951
EXPENSES	1,055	987
Domestic banking services	126	134
Foreign banking services	776	707
Agency and fiduciary business	78	52
Brokerage and other securities transactions	2	0
Payment transactions	34	46
Other services	39	48
NET FEES AND COMMISSIONS	1,721	1,964

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

	thousand EUR	
	2009	2008
Net realised gains/losses	282	1.301
Realised gains	-3	0
Available-for-sale financial assets	7	286
Loans and receivables (including finance leases)	279	608
Realised losses	225	370
Available-for-sale financial assets	54	238
Loans and receivables (including finance leases)	-1	407
Financial liabilities at amortised cost	-125	184
Other financial assets and liabilities	79	224

In 2009, the largest part of realised gains from available-for-sale financial assets arose on disposal of government bonds. The largest part of realised losses from this category arose on disposal of bonds issued by the CAJA Valencia and HSBC Group and.

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

	thousand EUR	
	2009	2008
Net gains/losses	282	1.301
Trading in shares	-3	0
Trading in debt securities and loans	7	286
Trading in foreign exchange and precious metals	279	608
Companies	225	370
Households	54	238
Derivatives	-1	407
Forwards	-125	184
Swaps	79	224
Options	45	0

27. FOREIGN EXCHANGE GAINS/LOSSES

	thousand EUR	
	2009	2008
Net gains/losses	136	-30
Foreign exchange gains	13,345	46,539
Foreign exchange losses	-13,209	-46,568

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

	thousand EUR	
	2009	2008
Net gains/losses		
Gains	-4	0
Losses	0	1

29. OTHER NET OPERATING INCOME

	thousand EUR	
	2009	2008
Other net operating income	56	197
Income	153	305
Income for non-banking services	41	45
Other operating income	112	260
Expenses	-97	-108
Membership fees	-65	-66
Other operating expenses	-32	-43

30. GENERAL ADMINISTRATIVE EXPENSES

thousand EUR

	2009	2008
Labour costs		
– gross salaries	5,128	5,032
– social security contributions	326	319
– pension insurance contributions	679	640
– other payroll duties	56	176
– other labour costs	445	429
Total	6,633	6,596
Costs of material and services		
Material	152	211
Rentals	497	396
Services	988	1,257
Consulting and auditing	159	228
Security	83	93
Legal	71	128
Provided by VBAG and VBI	394	545
Postage, telecommunication and data transfer	281	262
Advertising	405	778
Entertainment	65	82
Seminars and school fees	55	119
Maintenance	663	747
Other	1,559	1,578
TOTAL	4,383	5,170

31. AMORTISATION / DEPRECIATION

thousand EUR

	2009	2008
Depreciation of property, plant and equipment	726	672
Amortisation of intangible assets	117	155
Total amortisation/depreciation charge	843	827

The same as in 2008, the bank used the linear amortisation/depreciation method in 2009.

32. IMPAIRMENT AND PROVISIONS

Impairment and provisions in year 2009

thousand EUR

	Recognition of impairment and provisions	Derecognition of impairment provisions	Total 2009
Loans	–7,518	2,323	–5,196
Interest	–127	73	–54
Other receivables	–120	35	–84
Impairment	–7,765	2,431	–5,334
Provisions for off-balance receivables	–157	158	1
Provisions for pending lawsuits	–18	0	–18
Provisions for employee benefits	–66	0	–66
Provisions for anniversary bonuses	–12	0	–12
Provisions for retirement bonuses	–54	0	–54
Other provisions	–3	26	24
Provisions	–243	184	–59
Total impairment and provision	–8,008	2,615	–5,393

Impairment and provisions in year 2008

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 2009, the bank earned a net profit from ordinary activities of EUR 454 thousand. Deferred tax was minus EUR 109 thousand, and net loss for 2009 EUR 345 thousand.

34. ANALYSIS OF INCOME AND EXPENSE BY MARKETS

	thousand EUR	
	2009	2008
Total income (gross)	42,159	102,064
Income earned in foreign markets	8,920	44,930
Share of income earned in foreign markets	21.16%	44.02%
Total expenses (gross)	-36,145	92,846
Expenses incurred in foreign markets	-14,652	76,191
Share of expenses incurred in foreign markets	40.45%	82.06%

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 2009 were EUR 43,600 plus VAT.

In 2008, these expenses amounted to EUR 45,900 plus VAT.

36. EFFECTIVE TAX RATE

	thousand EUR	
	2009	2008
Profit or loss from ordinary activities	454	26
Estimated tax liability at the statutory tax rate of 21% (2008: 22%)	-95	-6
Difference to the actual tax liability	-15	-87
Additions to tax base (non-deductible entertainment expenses, donations, employee benefits)	-30	-27
Tax allowances (capital investments, research & development)	18	20
Other (changes in tax loss for previous years)	0	-77
Lower tax rate (influence on deferred tax)	-3	-3
Income tax in the income statement	-110	-93
Effective tax rate	24.28%	357.6 %

37. NUMBER OF EMPLOYEES

In 2009, the bank had 193.8 employees on average. As at year-end 2009, it had 194 employees. Of these, 6 had post-graduate education, 77 had university education, 18 had higher education, and 93 had secondary education.

38. ORGANISATIONAL UNITS ABROAD

The Bank does not have organisational units abroad.

39. FIDUCIARY BUSINESS

	thousand EUR	
	31. 12. 2009	31. 12. 2008
Fiduciary business	55,357	60,283
Syndicated loans	55,357	60,283
Agency business	0	0

AGENCY BUSINESS

(business with clients)

The bank had no assets or liabilities out of agency business as at 31 December 2009 and as 31 December 2008.

NET FEES AND COMMISSIONS FROM INVESTMENT SERVICES

	thousand EUR	
	2009	2008
Fee and commission income from (ancillary) investment services for clients	25	168
Acceptance, transmission and execution of orders	25	168
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 2009

Receivables and off-balance sheet liabilities

	v EUR			
	Managing Board members	Supervisory Board members	Employees with individual employment contracts	Total
Balance sheet receivables	95	0	408	503
Off-balance sheet liabilities	7	0	20	28
Total	102	0	428	531
Loan repayments	87	0	113	200

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.

Gross Receipts of Managing and Supervisory Board Members in year 2009

	thousand EUR			
	Gašpar Ogris-Martič	Aleš Zajc	Johann Staudigl	Supervisory Board members
Fix receipts (salary)	157	179	144	0,00
Variable pay (bonus)				
Profit sharing				
Option and other rewards				
Insurance and pension insurance	20	8	28	0,00
Costs reimbursement ¹⁾	21	2	12	0,00
Provisions and other additional receipts	0		0	0,00
Total	198	189	184	0,00

1) lunch reimbursement, internet, accommodation & costs

Gross Receipts of Employees with Individual Employment Contracts in year 2009

	thousand EUR
Employees with individual employment contracts	
Gross receipts	705
Participation in profit	0
Total	705

As at year-end 2009, the bank had three members of the Managing Board, six members of the Supervisory Board, and 13 employees with individual employment contracts. The bank also had seven procurators.

Receivables from and liabilities to the parent VBI

	thousand EUR
LIABILITIES	227,464
Long-term loans from banks in EUR	130,000
Long-term loans from banks in foreign currency	97,459
Trade payables	5

Income and expenses from the parent VBI

	thousand EUR
EXPENSES	5,449
Interest expenses	4,389
Counselling and other services	368
Fees for loans	692

Receivables from and liabilities to the subsidiary Privatinvest

	thousand EUR
RECEIVABLES	12
Trade receivables	12
LIABILITIES	181
Balance on transaction account	23
Deposits	157
Trade payables	1

Income and expenses from the subsidiary Privatinvest

	thousand EUR
INCOME	10
Fees for payment transactions	0,3
Other income	10
EXPENSES	18
Interest expenses	2
Rentals	12
Office operating expenses	4

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 2007

	thousand EUR
1. Cash and 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 balances with central bank	31,140
2. Loans to banks and savings banks maturing in 3 months	43,660
Transaction accounts abroad	25,678
Transaction accounts abroad in foreign currency	2,982
Overnight deposits abroad	15,000
Overnight deposits abroad in foreign currency	0
TOTAL	74,800

Cash and cash equivalents as at 31 December 2009

	thousand EUR
1. Cash and balances with central bank	65,636
2. Loans to banks and savings banks maturing in 3 months	49,079
Transaction accounts abroad	47,340
Transaction accounts abroad in foreign currency	1,739
Overnight deposits abroad	0
Overnight deposits abroad in foreign currency	0
TOTAL	114,715

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 these financial statements, the results of its operations and other disclosures made herein.

In addition, it has to be mentioned that on 3 March 2010 the court decision on compulsory settlement in Istrabenz case became binding. Within 30 days interest calculated with new interest rate are to be paid. In April 2010 the bank is going to estimate the net present value of the loan, determine the necessary impairment and book all effects out of decision on compulsory settlement.

**Consolidated
Financial
Statements**

**Banka
Volksbank d.d.**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE BANK BANKA VOLKSBANK D.D.

We have audited the accompanying consolidated financial statements of the bank Banka Volksbank: d.d., and its subsidiary (the Banka Volksbank Group) which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, 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 misstatement.

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 Banka Volksbank Group as at 31 December 2009, 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 consolidated financial statements.

Ljubljana, 29 March 2010

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

Boris Drobnič, B.Sc.Ec.



Certified Auditor
Partner

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

in thousand EUR

ITEM DESCRIPTION	AMOUNT	
	CURRENT YEAR	PREVIOUS YEAR
Cash and cash balances with central banks	65,636	31,140
Financial assets held for trading	1,077	572
Financial assets designated at fair value through profit or loss	0	0
Available-for-sale financial assets	21,695	10,013
Derivatives - hedge accounting	0	0
Loans and receivables	799,421	799,914
- loans and receivables to banks	49,722	49,372
- loans and receivables to non-bank customer	749,698	750,542
Held-to-maturity investments	3,083	6,071
Property, plant and equipment	8,666	8,423
Investment property	1,351	1,269
Intangible assets	294	417
Tax assets	340	379
- current taxes	267	0
- deferred taxes	72	379
Other assets	2,264	8,176
TOTAL ASSETS (from 1 to 15)	903,826	866,374
Financial liabilities held for trading	1,137	630
Derivatives - hedge accounting	94	81
Financial liabilities measured at amortised cost	828,237	791,989
- deposits from banks	62,095	83,540
- deposits from non-banks	300,724	263,512
- loans and advances from banks	437,060	416,475
- subordinated liabilities	28,358	28,460
Provisions	380	368
Tax liabilities	6	421
- current tax liabilities	0	415
- deferred tax liabilities	6	6
Other Liabilities	5,449	5,053
TOTAL LIABILITIES (from 17 to 27)	835,304	798,542
Basic equity capital	43,822	43,822
Share premium account	27,319	27,319
Revaluation reserves	-8	-535
Reserves from profit (including retained earnings)	-2,776	-2,709
Profit or loss from current year	165	-66
TOTAL EQUITY (36+37)	68,522	67,831
TOTAL LIABILITY AND EQUITY (28 + 38)	903,826	866,374

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JAN TO 31 DEC 2009

in thousand EUR

No.	ITEM DESCRIPTION	AMOUNT	
		CURRENT YEAR	PREVIOUS YEAR
1	Interest income and similar income	31,686	46,087
2	Interest expenses and similar expenses	-16,306	-30,074
3	Net interest income (1 - 2)	15,380	16,013
4	Dividend income	1	0.6
5	Fee and commission income	2,776	2,950
6	Fee and commission expense	-1,055	-987
7	Net fee and commission income (5-6)	1,720	1,963
8	Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	138	-320
9	Gains and losses on financial assets and liabilities held for trading	281	1,301
12	Exchange differences	136	-30
13	Gains and losses on derecognition of assets other than held for sale	-25	-0
14	Other operating net income	90	258
15	Administration costs	-11,038	-11,791
16	Depreciation	-868	-846
17	Provisions	-59	-48
18	Impairment	-5,319	-6,465
21	Total profit or loss from non-current assets and disposal groups classified as held for sale	0	2
22	TOTAL PROFIT AND LOSS BEFORE TAX FROM CONTINUING OPERATIONS (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 - 15 - 16 - 17 - 18 + 19 + 20 + 21)	437	36
23	Tax expense (income) related to profit and loss from continuing operations	-272	-103
24	TOTAL PROFIT AND LOSS AFTER TAX FROM CONTINUING OPERATIONS (22 - 23)	165	-66
	NET PROFIT OR LOSS for the financial year (24 + 25)		
26	a) Profit or loss attributable to owner of the parent	165	-66
	b) Profit and loss attributable to minority interest		

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FROM 1 JAN TO 31 DEC 2009**

in thousand EUR

Item No.	ITEM DESCRIPTION	AMOUNT	
		CURRENT FINANC. YEAR	PREVIOUS FINANC. YEAR
1	NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	345	-67
2	OTHER COMPREHENSIVE INCOME AFTER TAX (3+4+5+9+13+18+22+26+27+28+29)	527	-341
3	Tangible assets	0	0
4	Intangible assets	0	0
5	Hedge of net investments in foreign operations (effective portion) (6+7+8)	0	0
6	Valuation gains (losses) taken to equity	0	0
7	Transferred to profit or loss	0	0
8	Other reclassifications	0	0
9	Foreign currency translation (10+11+12)	0	0
10	Valuation gains (losses) taken to equity	0	0
11	Transferred to profit or loss	0	0
12	Other reclassifications	0	0
13	Cash flow hedges (effective portion) (14+15+16+17)	0	0
14	Valuation gains (losses) taken to equity	0	0
15	Transferred to profit or loss	0	0
16	Transferred to initial carrying amount of hedged items	0	0
17	Other reclassifications	0	0
18	Available-for-sale financial assets (19+20+21)	667	-428
19	Valuation gains (losses) taken to equity	667	-428
20	Transferred to profit or loss	0	0
21	Other reclassifications	0	0
22	Non-current assets and disposal groups held for sale (23+24+25)	0	0
23	Valuation gains (losses) taken to equity	0	0
24	Transferred to profit or loss	0	0
25	Other reclassifications	0	0
26	Actuarial gains (losses) on defined benefit pensions plans	0	0
27	Share of other recognised comprehensive income of entities accounted for using the equity method	0	0
28	Other items	0	0
29	Income tax relating to components of other comprehensive income	-140	87
30	TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1 + 2)	872	-408
	a) Attributable to owners of the parent		
	b) Attributable to non-controlling interests		

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 1 JAN TO 31 DEC 2009**

thousand EUR

No.	ITEM DESCRIPTION	Basic Equity	Share premium	Equity component of compound financial instruments	Revaluation reserves	Reserves from profit	Retained earnings or loss (including profit or loss from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
2	Consolidated Comprehensive Income for the financial year after tax				526		165		691	0	691
3	New share capital subscribed (paid)										
4	Repayment of equity										
5	Net purchase/sale of treasury shares										
6	Appropriation of (accounting for) dividends/rewards in form of shares										
7	Appropriation of (accounting for) dividends										
8	Transfer of net profit to reserves from profit										
9	Covering of the loss brought forward										
10	Other										
11	CLOSING BALANCE FOR THE REPORTING PERIOD	43.140	27.319		-8	6	-1.935		68.522	0	68.522

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 1 JAN TO 31 DEC 2008

thousand EUR											
No.	ITEM DESCRIPTION	Basic Equity	Share premium	Equity component of compound financial instruments	Revaluation reserves	Reserves from profit	Retained earnings or loss (including profit or loss from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
1	OPENING BALANCE FOR THE REPORTING PERIOD	31.377	19.082		-146	6	-2.034		48.285	0	48.285
2	Consolidated Comprehensive Income for the financial year after tax		0		-388	0	-66	0	-454	0	-454
3	New share capital subscribed (paid)	11.763	8.237						20.000		20.000
4	Repayment of equity										
5	Net purchase/sale of treasury shares										
6	Appropriation of (accounting for) dividends/rewards in form of shares										
7	Appropriation of (accounting for) dividends										
8	Transfer of net profit to reserves from profit										
9	Covering of the loss brought forward										
10	Other										
11	CLOSING BALANCE FOR THE REPORTING PERIOD	43.140	27.319		-534	6	-2.100	0	67.831	0	67.831

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JAN TO 31 DEC 2009

		in thousand EUR	
Designation	ITEM DESCRIPTION	CURRENT FINANCIAL YEAR	PREVIOUS FINANCIAL YEAR
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a)	Total profit or loss before tax	454	26
	Depreciation	843	827
	Impairments / (reversal of impairments) of financial assets held to maturity	5,334	6,462
	Impairments of tangible assets, investment property, intangible fixed assets and other assets	4	0
	Impairments of capital investments in subsidiaries, associates and joint venture (Negative goodwill)	0	0
	Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	0
	Net (gains) / losses from exchange differences	-466	29
	Net (gains) / losses from financial assets held to maturity	14	263
	Net (gains) / losses from sale of tangible assets and investment properties	0	-12
	Net (gains) / losses from sale of intangible assets	0	0
	Other (gains) / losses from investing activities	0	150
	Other (gains) / losses from financing activities	0	0
	Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	330	-12
	Net unrealised (gains) / losses from non-current assets held for sale and discontinuing operations and liabilities associated therewith	0	0
	Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)	667	0
	Net unrealised gains in revaluation reserves from hedging of cashflow against risks (excluding effect of deferred tax)	0	-341
	Other adjustments to total profit or loss before tax	747	-2,685
	Cash flow from operating activities before changes in operating assets and liabilities	7,927	4,707
b)	(Increases) / decreases in operating assets (excl.cash ,cash equivalents)	-5,367	-215,705
	Net (increase) / decrease in balances with central banks	0	0
	Net (increase) / decrease in financial assets held for trading	0	0
	Net (increase) / decrease in financial assets designated at fair value through profit or loss	0	-553
	Net (increase) / decrease in financial assets available for sale	-12,405	4,692
	Net (increase) / decrease in loans and receivables	475	-213,320
	Net (increase) / decrease in assets-derivatives - hedge accounting	0	0
	Net (increase) / decrease in non-current assets held for sale	0	0
	Net (increase) / decrease in other asset	6,563	-6,524
c)	(Increases) / decreases in operating liabilities	35,808	208,297
	Net (increase) / decrease in financial liabilities to central bank	0	0
	Net (increase) / decrease in financial liabilities held for trading	0	630
	Net (increase) / decrease in financial liabilities designated at fair value through profit or loss	0	0

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JAN TO 31 DEC 2009 (CONTINUED)

Designation	ITEM DESCRIPTION	in thousand EUR	
		CURRENT FINANCIAL YEAR	PREVIOUS FINANCIAL YEAR
	Net (increase) / decrease in deposits, loans and receivables measured a amortised cost	35,437	204,931
	Net increase / (decrease) in debt instruments in issue measured at amortised cost	0	0
	Net (increase) / decrease in liability-derivative - hedge accounting	13	80
	Net (increase) / decrease in liabilities associated with non-current assets held for sal	0	0
	Net (increase) / decrease in other liabilities	358	2,656
č)	Cash flow from operating activities (a+b+c)	38,368	-2,701
d)	Income taxes (paid) refunded	-789	0
e)	Net cash flow from operating activities (č+d)	37,579	-2,701
B.	CASHFLOWS FROM INVESTING ACTIVITIES		
a)	Receipts from investing activities	2,989	1
	Receipts from the sale of tangible assets and investment properties	0	1
	Receipts from the sale of intangible assets	0	0
	Receipts from the disposal of subsidiaries, associates, joint ventures	0	0
	Receipts from non-current assets or liabilities held for sale	0	0
	Receipts from the sale of financial assets held to maturity	2,989	0
	Other receipts from investing activities	0	0
b)	Cash payments on investing activities	983	878
	(Cash payments to acquire tangible assets and investment properties)	973	743
	(Cash payments to acquire intangible fixed assets)	10	135
	(Cash payment for the investment in subsidiaries, associates and joint ventures)	0	0
	(Cash outflow to non-current assets or liabilities held for sale)	0	0
	(Cash payments to acquire held to maturity investments)	0	0
	(Other cash payments related to investing activities)	0	0
c)	Net cash flow from investing activities (a-b)	2,006	-877
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash proceeds from financing activities	0	29,532
	Cash proceeds from subordinated liabilities issued	0	9,500
	Cash proceeds from issuing shares and other equity instruments	0	20,000
	Cash proceeds from the sale of treasury shares	0	0
	Other cash proceeds related to financial activities	0	32
b)	Cash payments on financing activities	0	0
	(Dividends paid)	0	0
	(Cash repayments of subordinated liabilities)	0	0
	(Cash payments to acquire treasury shares)	0	0
	(Other cash payments related to financial activities)	0	0
c)	Net cash flow from financing activities (a-b)	0	29,532
D.	Effects of change in exchange rates on cash and cash equivalents	330	-12
E.	Net increase in cash and cash equivalents (Ae+Bc+Cc)	39,585	25,954
F.	Opening balance of cash and cash equivalents	74,800	48,858
G.	Closing balance of cash and cash equivalents (D+E+F)	114,715	74,800

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 0.19 % 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 23 thousand). Short-term deposits of Privatinvest with the bank were offset against short-term deposits of the bank (EUR 157 thousand). Other liabilities of Privatinvest to the bank were offset against other receivables of the bank (EUR 12 thousand).

In the consolidated income statement, interest expenses of Privatinvest was offset against interest income of the bank (EUR 2 thousand), and administrative expense of Privatinvest were offset against other operating income of the bank (EUR 22 thousand).

REPORT ON FACTUAL FINDINGS

TO THE SHAREHOLDERS OF BANKA VOLKSBANK D.D.

We have performed the procedures agreed with you and enumerated below with respect to the Decision on the minimum scope and content of the additional audit of compliance of banks and savings banks with risk management rules (Official Journal of RS, no. 42/09; hereinafter 'Decision'). These are procedures on the compliance of Banka Volksbank d.d. and the Banka Volksbank Group, with risk management rules for the financial year ended 31 December 2009. Our engagement was undertaken in accordance with the International Standard on Related services 4400 - Engagements to perform agreed-upon procedures regarding financial information. The procedures were performed solely to assist you in assessing the observance of provisions laid down within regulations of the Banking Act (Official Journal of RS, no. 131/06, 109/08 and 19/09) - the Decision on supervision of banks and savings banks on a consolidated basis (Official Journal of RS, no. 135/06 and 104/07; hereinafter 'Decision on consolidated supervision'), the Decision on risk management and the internal capital adequacy assessment process for banks and savings banks (Official Journal of RS, no. 135/06, 28/07 and 104/07; hereinafter 'Decision on risk management'), and the Decision on the calculation of capital for banks and savings banks (Official Journal of RS, no. 135/06 and 104/07; hereinafter 'Decision on the calculation of capital') - for the financial year ended 31 December 2009.

The specific procedures are summarised as follows:

1. We checked the observance of general standards regarding the management of credit risk, market risk, interest rate risk, operational risk and liquidity risk all defined by Enclosures I-V Decision on risk management.
2. We checked whether special requirements of the Decision relating to rules on managing credit risk, market risk, interest rate risk, operational risk and liquidity risk, have been met.
3. As for the capital, the capital requirements and the bank's internal capital adequacy we checked whether the bank observes the provisions of the Decision on the calculation of capital.

We report our findings below:

- a) With respect to item 1 we found that Banka Volksbank d.d. and the Banka Volksbank Group in all material respects observes the general standards regarding the management of credit risk, market risk, interest rate risk, operational risk and liquidity risk all defined by Enclosures I-V Decision on risk management.
- b) With respect to item 2 we found that Banka Volksbank d.d. and the Banka Volksbank Group in all material respects meets the special requirements of the Decision relating to rules on managing credit risk, market risk, interest rate risk, operational risk and liquidity risk.
- c) With respect to item 3 we found that Banka Volksbank d.d. and the Banka Volksbank Group in all material respects observes the provisions of the Decision on the calculation of capital.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance relating to the compliance with risk management rules.

As we performed an additional audit as well as the audit of financial statements of Banka Volksbank d.d. and consolidated financial statements of Banka Volksbank Group in accordance with the International Standards on Auditing, all other matters that have come to our attention are stated in the independent auditor's report.

Our report is solely for the purpose set forth in the first paragraph of this report and may be distributed only to customers stated in the contract. This report relates only to the compliance with risk management rules.

Ljubljana, 29 March 2010

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

Boris Drobnič, B.Sc.Ec.



Certified Auditor
Partner

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