



ZAUPANJE NAS POVEZUJE.  
UNITED IN TRUST.

LETNO POROČILO 2007  
ANNUAL REPORT

07

Austria

Bosnia and Herzegovina

Croatia

Czech Republic

**SLOVENIA**

Hungary

Romania

Serbia

Slovakia

Ukraine

 **VOLKSBANK**

Dunajska cesta 128 a

SI-1000 Ljubljana

Tel.: 00386 1 53 07 400

Fax.: 00386 1 53 07 555

**VOLKSBANK – LJUDSKA BANKA D.D.**

[info@volksbank.si](mailto:info@volksbank.si)

[www.volksbank.si](http://www.volksbank.si)

[www.vbskladi.si](http://www.vbskladi.si)

080 22 65



## CONTENT

<b>BUSINESS REPORT 2007</b>	<b>7</b>
Management Board	8
International Network	10
Managing Bodies	11
General Business Environment In 2007	12
Bank's Strategy	14
The Bank's Profile	16
Financial Position	26
Financial Result	29
Exposure to Risks	31
Share Capital and Shareholders	33
Past and Present Development	35
Information About The Volksbank – Ljudska Banka d.d. Group	39
Report of the Supervisory Board	40
<b>FINANCIAL STATEMENTS</b>	<b>43</b>
Statement on Responsibility of the Management Board	45
Independent Auditor's Report	46
Financial Statements	48
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>57</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>125</b>
Independent Auditor's Report	126
Consolidated Financial Statements	128
Notes to Consolidated Financial Statements	136
Organizational Structure	138
Key Figures	140
<b>SERVICE</b>	<b>143</b>

**GAŠPER JEMEC**

Gašper Jemec, born in 1975, graduated in 1998, in 2005 he was awarded the Master of Arts degree in painting on the Academy of Fine Arts in Ljubljana. In 1999 he further studied on the postgraduate department of the Indiana University of Pennsylvania, United States. In 2001 and 2002 he as holder of Herder's scholarship in his studies perfected his knowlwdge in the domain of sculpture at the Vienna University. He is active in the fields of painting, sculpture, multimedia and photography. For his creative works, Gašper Jemec was awarded international prizes and awards, his works have been presented in numerous independent and group exhibitions in Slovenia and abroad.



»Wideness 03« 2006, acrylics on canvas, 121 x 385 cm, photo by Matija Pavlovec

» ... The creative practice of Gašper Jemec, divided between painting, visual objects and multimedia works, indicates the author's restless experimental nature, which enjoys in discovering new possibilities of expression and working processes, rationally anchored in a modern image-forming context. On the one hand, the painting of the young Jemec still strongly adheres to processuality, to sensual treatment and direct contact with the colour substance where within an exchange of the incidental and the controlled images are created, which are neither mimetic nor abstract ...

On the other hand, into his work the author consciously introduces the technological aspect, as he is aware of attractive possibilities of technology and its transformation influence upon the production of images. For this reason, his paintings are often attractive panoramas of interlaced object forms and radiant colours, glittering, smooth and synthetic surfaces, which correspond to the technicistic glamour of the time, they often being placed in illuminated niches and display cases where they compete with the screen.

In the background of Jemec's creativity there is rooted the desire to discover the unknown as the ultimate goal of human efforts and findings. Therefrom there originate his multimedia objects, such as are, let us say, the travel objects, Voyagers, researchers of the metaphoric blackness of the deep sea, and painting images indicating the wideness of view, with which the physical space and time would be surpassed. Exactly in this utopian desire to unveil the »anatomy« of the physical world there is, today, hidden the fascination with technology.«

From the text » In the Dialogue of Differences« of the fine arts critic Nadja Gnamuš.

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



**ZAUPANJE NAS POVEZUJE.  
UNITED IN TRUST.**

## MANAGEMENT BOARD

Ladies and gentlemen,

In 2007, the bank continued with the successful implementation of its strategy, which reflected positively on its total assets, credit portfolio and net profit.

Total assets increased by 27% to stand at 618 million EUR at year-end. This increase is mainly attributable to the 46% increase in loans to the non-banking sectors, which stood at 527.6 million EUR at year-end, and the 57% increase in deposits from the non-banking sectors, which stood at 174.1 million EUR at year-end.

The bank made a profit before taxes of 3.0 million EUR and, after deferred taxes, a net profit of 2.7 million EUR.

High-quality services and innovative products launched in 2007, combined with successful marketing activities, earned the bank greater recognition in the Slovenian market. Through active marketing, the bank maintained bank products both in its retail and corporate segments in high demand.

In the retail segment, the bank increased the net volume of loans by 59%, thus increasing its market share to 3.26% or by 0.66 percentage points compared to 2006. The bank enjoyed excellent sales of insurance products of Victoria Volksbanken, which were actively supported by the insurance company's advisers and insurance advice days. In the personal banking field, the bank expanded its range of products with 10 investment funds of the Austrian management company VB Invest AG, as well as, starting from July, structured products (investment certificates), which represents a new, fresh form of saving in the market. Its marketing of both primary issues of structured products (Garant Top I and II) was extremely successful: it generated excellent sales results and thus positioned the bank well in the structured products segment. In October, by opening a new branch in the very centre of Ljubljana, the bank further expanded its business network.

In the corporate segment, the bank increased the net volume of loans by 40%, which is mainly attributable to SME and project financing. Just by extending loans for 20 new projects, it increased its credit portfolio by 40 million EUR. This was further increased by loans worth 25 million EUR extended to SMEs, which was in accordance with its strategy to be SME-oriented. In the field of factoring, the bank increased the volume of transactions by 256% or 25 million EUR.

As of 1 January 2008, the bank implemented the new European capital framework, Basel II. As regards capital requirements for credit risk, it will use the standardised approach for the time being, but intends to eventually adopt the internal ratings based approach. This will require upgrading of the existing internal system for risk monitoring, in accordance with legislation and Group guidelines.



From left to right:  
Aleš Zajc, Gašpar Ogris-Martič, Johann Staudigl

The bank's future path and objectives are clearly defined in its strategy. Its strategic objectives include achievement of important shares in key market segments, further improvement of performance indicators, development of non-banking products and services, increased use of sales channels outside branches and significant deposit growth. The bank will achieve its strategic objectives through greater flexibility in loan transactions, growing recognition as a bank possessing know-how in the strategic segments, robust information system support and high-quality banking services.

Gašpar Ogris – Martič

Chairman

Aleš Zajc

Deputy Chairman

Johann Staudigl

Board Member

## KEY FIGURES

in thousand EUR	2006	2007
Total assets	484,778	618,327
Amounts owed to customers	110,961	174,184
Loans to customers	360,345	527,615
Operating income	11,767	14,768
Operating expenses	-10,110	-10,919
Total Profit before Tax	708	2,748
Number of employees as at 31. 12.	170	183
Number of branches	9	10

## INTERNATIONAL NETWORK

Volksbank – Ljudska banka d.d. has prospered in the Slovenia market since 1993. The bank's main shareholder is Volksbank International AG (VBI AG).

Founded in 1922 by commercial lending cooperatives Volksbank AG (VB AG) is majority-owned by more than 60 independent Austrian "Volksbanken" (cooperative banks). Today VB AG is the central institute of one of the most important banking groups in Austria and an international commercial bank. Leading the way into growing markets, VB AG was one of the first banking institutions to begin expanding into Central and Eastern Europe as early as 1991.

Volksbank International AG (VBI), located in Vienna, Austria, is majority-owned by VB AG (51%), the remaining shares are equally held by the German DZ BANK / WGZ BANK and the French Banque Fédérale des Banques Populaires (both 24.5%). VBI is managing a successful and steadily expanding network of more than 500 sales outlets in nine Central and Eastern European countries: Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia and Ukraine. As of 2007 their total assets amount more than EUR 9.5 billion. More than 5,000 employees offer a full range of modern banking products and services to both private and corporate clients.

In 2007 Volksbank International AG strengthened cooperation with its Austrian, German, French and Italian partners by intensifying CEE UNLIMITED. Aimed at promoting referred business this service provides bank officers with the necessary know-how and essential tools for starting and conducting business in Central and Eastern Europe. Customers – mainly SMEs – are still advised by their usual bank but gain access to banking services throughout the CEE network. The cooperation is convenient, professional and – of course – in the client's mother tongue.

One of the various services offered by CEE UNLIMITED is CEE ACCOUNT OPENING. Bilingual CEE CONTRACTS (in German, English, French or Italian and the respective local language) make opening accounts easy. Customers have immediate access to their account without the inconvenience of drawn-out formalities or unnecessary delays. Multilingual CEE SPECIALISTS facilitate cooperation between VBI banks and foreign customers. Highly specialised affiliates provide personalised services in the fields of leasing, real estate, fund management, insurance and investment banking.

However size isn't everything and we aim to provide more than simply an extensive network of banks. More importantly, VBI is committed to helping our customers achieve business success, which is why having personal contact with our clients, providing reliable service and building mutual trust and reliability are our primary objectives. Our highest values are the professional quality of our services and fostering long term relationships with our clients. Volksbank International and CEE UNLIMITED stand for unique services that ensure that international clients feel "at home" doing business abroad.

## MANAGING BODIES

### SUPERVISORY BOARD

#### CHAIRMAN

**Gerhard Wöber**  
Volksbank International AG, Dunaj

#### DEPUTY CHAIRMAN

**Wolfgang Hofstetter**  
Volksbank International AG, Dunaj

#### MEMBERS

**Thomas Capka**  
Volksbank International AG, Dunaj

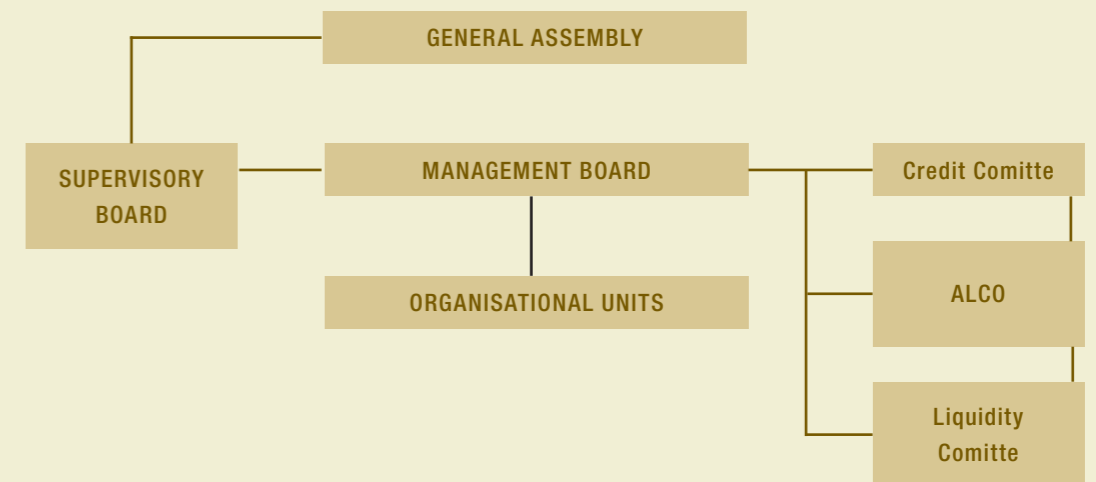
**Fausto Maritan**  
Banca Popolare di Vicenza, Vicenza

### MANAGEMENT BOARD

**Gašpar Ogris-Martič**  
Chairman

**Aleš Zajc**  
Deputy Chairman

**Johann Staudigl**  
Board Member



## GENERAL BUSINESS ENVIRONMENT IN 2007

As expected, economic growth in the euro area slowed down towards the end of 2007. In 2007, annual economic growth in the euro area was 2.6% or 0.1 percentage points below the 2006 level. In general, it was below the 2006 level in all developed economies, while it was above the 2006 level in Asian economies. Economic growth also slowed down in Slovenia's main EU trading partners, Germany, Italy, Austria and France. Trade in goods with these four countries was below the average EU27 trade in goods. On the other hand, Slovenian exports to Hungary, the Czech Republic, Poland and Slovakia increased significantly, and Slovenian imports from Austria and Italy also increased.

Real growth rate of the gross domestic product of Slovenia was 5.8% or 0.1 percentage points above the 2006 level. The main reason for such weak growth was weaker growth in domestic demand, mainly private consumption.

Labour market conditions reflected economic growth. In 2007, the number of unemployed and the unemployment rate decreased substantially: by 12.8% and from 8.6% to 7.3% respectively. The reason for the decreased number of unemployed was a smaller inflow to unemployment. Interestingly, while the total number of registered unemployed decreased, the number of unemployed with higher education saw the smallest decrease and the number of unemployed over 50 even saw an increase. The ILO unemployment rate was 4.9% in 2007.

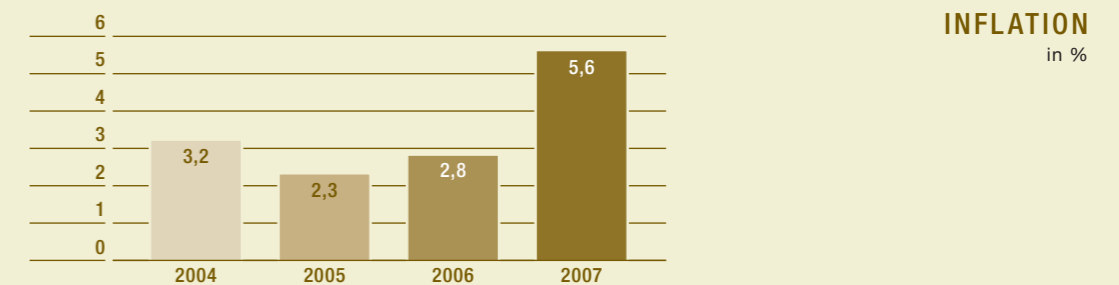
Current account deficit increased considerably in 2007: to 4.9% of the estimated GDP. According to the Institute of Macroeconomic Analysis and Development (IMAD), the main reason for this deficit was the increased deficit on trade in goods and factor income (due to higher interest on external debt). Net external debt increased to 6.4 billion EUR in 2007 or by almost one quarter.

Average inflation in 2007 was considerably higher than in 2006. It reached 3.8%, mainly on account of higher food and energy prices. IMAD's expectations regarding the future inflation in Slovenia are mainly based on the assumption of moderation of energy and other commodity prices in world markets and of conclusion of an agreement on key economic policies in Slovenia. However, both assumptions are surrounded by a great deal of uncertainty, which makes predictions very difficult. In 2007, annual inflation in the euro area was 2.1% or 0.1% below the 2006 level.

Current account deficit was 1.6 billion EUR in 2007 or 4.9% of the estimated GDP, the highest ever since Slovenia's gaining independence. The main reason for this deficit was

the increased deficit in the trade balance, with imports exceeding exports. Other reasons were the increased net expenditure under transfers and under factor income. However, the fact remains that the deficit on trade in goods between Slovenia and other EU countries has been increasing gradually.

Total assets of the banking sector increased by 24.9% in 2007. Household bank savings increased despite the high growth rates experienced by alternative savings. Time deposits increased the most, while overnight deposits dropped. On the other side of the balance sheet, loans to the non-banking sectors regained momentum. Enterprises and non-financial institutions accounted for almost 80 percent of the total net borrowing by domestic non-banking sectors. Net household borrowing increased by slightly less than one third. In 2007, the annual growth rate of loans in Economic and Monetary Union increased by 1.5 percentage points to 11.1%.



## BANK'S STRATEGY

The bank's strategy involves continuation of the existing universal banking activities and their expansion by new banking services, as well as provision of more and more non-banking products and services. The bank's medium-term business plan involves an increase of non-interest income to total income, generated both from banking activities as well as from insurance activities and investments products. In this way, the bank will be able to limit growth of the risk-weighted assets. At the same time, conducting a more active deposit gathering policy, it will obtain less expensive refinancing sources as well as increase its existing customer base.

In the retail segment, the bank's main strategic objective remains growth of market share in the housing loan segment, and a more and more active sale of structured products. In the corporate segment, the bank remains SME-oriented. In addition to this key pillar of the corporate segment, the bank intends to develop another key pillar, namely project financing. Another strategic objective in this segment is to position the bank as one of the leading factoring providers.

For its strategy to give effect, the bank has adopted strategic guidelines that include: growing recognition as a bank possessing know-how in the strategic segments, high-quality banking services, faster decision-making, flexibility in loan transactions, individual approach to clients, optimal risk management, employee professionalism and expertise, and robust information system support.

In its annual business plans, the bank defines concrete objectives for the strategy to give effect.

In the 2008 business plan, the bank set itself the target of a 31% increase in the total credit portfolio, which should be the result of a 36% increase in the retail credit portfolio and a 29% increase in the corporate credit portfolio. In accordance with its strategic objective to increase efficiency, the bank should also achieve a cost to income ratio of less than 65%.

In 2008, the bank will continue monitoring all risks associated with its business, and ensuring their optimal management. As of 1 January 2008, the bank adopted the standardised approach to capital requirements for credit risk, in accordance with the new European capital framework, Basel II. This was done also at Group level. The bank will continue with active monitoring of bank risks and preparation of a database and processes

that will enable it to adopt a modern approach to risk management, and will thus reduce the possibility of unforeseen losses in all fields of its banking activities.

To support achievement of these targets, the bank opened its fourth branch in Ljubljana in October 2007. In 2008, it intends to open another two or three new branches, as well as employ more advisers in the corporate segment. The bank will dedicate a lot of attention to enhanced productivity, process management and further automation of support functions. The bank will also continue with employee training, mainly in the fields that will enable it to expand its business.

## THE BANK'S PROFILE

Volksbank – Ljudska banka d.d. has an authorisation to perform banking services pursuant to Article 7 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 131/06; hereinafter: the ZBan-1). Banking services are the acceptance of deposits from the public and the granting of credits for its own account.

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

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 export financing based on the purchase at a discount without recourse of non-current, undue receivables collateralised with a financial instrument (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,
  - financial futures and options,
  - exchange and interest-rate instruments,

trading for own account in:

- money market instruments,
- transferable securities;

8. participation in securities issues and the provision of services related to such issues;

15. investment and ancillary investment services and operations.

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

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

## LENDING

In 2007, the bank continued focusing on lending operations. This area of business is particularly interesting as it offers excellent opportunities for cross-selling between loans and other banking products, and thus for higher interest and other income. The overall growth in loans to banking and non-banking sectors reached 49% in 2007.

In the corporate segment, the bank increased its credit portfolio by 40%. Together with the European Bank for Reconstruction and Development (EBRD), it successfully marketed loans to SMEs and private entrepreneurs. The main purpose of these loans was to provide finance for capital investments (acquisition of production equipment or property), acquisition of current operating assets and modernisation/expansion.

In the retail segment, the bank increased its credit portfolio by 60%. Such high growth is attributable to the bank's continued active presence in the housing loans segment, supported by intensive marketing activities and experienced staff. The bank also made a step forward in the consumer loans segment, where it managed to maintain growth by revamping its services and by relying on contractual partners.

Loans to banks increased by as much as 91% or 23.9 million EUR, which is explainable by the bank's liquid assets (short-term deposits with banks) being higher at the end of 2007 than at the end of 2006.

in thousand EUR

Loans by type of client	2006	Structure	Increase	2007	Structure	Index
Loans to banks	26,403	7	23,954	50,357	9	191
Loans to companies	243,891	63	97,655	341,546	59	140
Loans to households	116,454	30	69,615	186,069	32	160
<b>Total loans</b>	<b>386,748</b>	<b>100</b>	<b>191,225</b>	<b>577,973</b>	<b>100</b>	<b>149</b>

#### Loans by maturity

Short-term loans	89,932	23	81,771	171,703	30	191
Long-term loans	296,816	77	109,454	406,270	70	137

#### Loans by currency

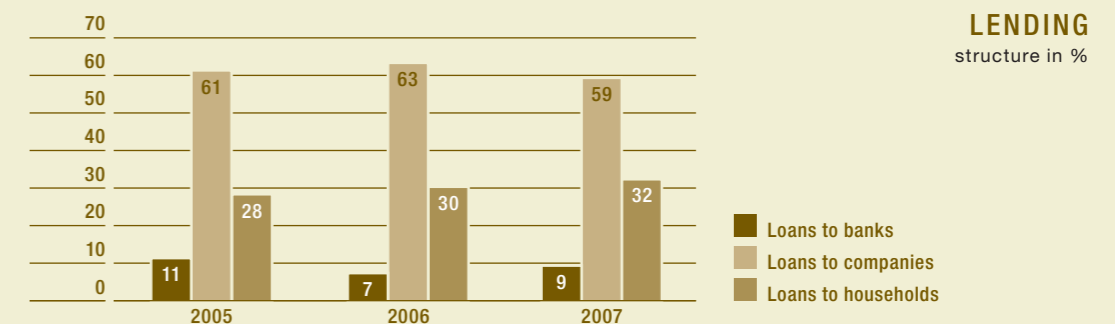
Loans in toalars	352,384	91	122,632	473,016	82	134
Loans in toalars with currency clause	18,660	5	26,060	46,720	8	250
Foreign currency clause	15,704	4	42,533	58,237	10	371

As regards loan maturity, long-term loans prevailed. They increased by 37% to 406 million EUR, while short-term loans increased by 91% to 171.7 million EUR. The share of short-term loans in the total loans increased by 7 percentage points to 30%, while the share of long-term loans in the total loans decreased by 7 percentage points to 70%.

As regards the currency of loan-denomination, loans with a foreign exchange indexation clause saw a significant increase of 150% and stood at 46.7 million EUR at year-end. This is explainable by the growth in long-term loans with a CHF indexation clause granted to households. Foreign currency-denominated loans saw the highest increase: they grew by 271% to 58 million EUR, which is explainable by the active marketing of CHF-denominated loans to legal persons. In the second half of 2007, the bank offered to private persons CHF-denominated loans as an alternative to loans with a foreign exchange indexation clause. Euro-denominated loans increased by 34% to 473 million EUR. In the

bank's credit portfolio, local currency-denominated loans represent 82%, foreign currency-denominated loans represent 10% and loans with a foreign exchange indexation clause represent 8%. For comparison reasons, euro-denominated loans and loans with an euro indexation clause granted in 2006 are shown under local currency-denominated loans.

Lending structure in the last three years:



#### DEPOSITS – SOURCES OF FUNDS

The deposits business, which means the collecting of assets from banks and other customers, represents the most important source of assets for the Bank. The volume of deposits collected from banks and other customers exceeded SIT 102 billion in 2006, which is 14% more than in 2005. With regard to the currency, 37% of deposits were in toalars with a currency clause, 47% were foreign-currency deposits and 16% were pure tolar deposits. By maturity, long-term deposits accounted for 74% and short-term deposits for 26%. Sources of funds, which are presented under this point, equal the sum of financial liabilities, measured at amortised costs excluding subordinated liabilities.

In 2006, deposits or debts to banks increased by 24%, which is more than the general growth of deposits. However, bank deposits represent 85% of all assets collected. The biggest share of debts owed to banks is deposits by the bank VB AG, which is 50% owner of the parent bank VBI AG.

in thousand EUR

Deposits by type of depositor	2006	Structure	Increase	2007	Structure	Index
Deposits from banks	317,778	74	56,215	373,993	68	118
Deposits from companies	53,761	13	56,309	110,070	20	205
Deposits from households	57,199	13	6,915	64,114	12	112
<b>Total deposits</b>	<b>428,738</b>	<b>100</b>	<b>119,439</b>	<b>548,177</b>	<b>100</b>	<b>128</b>

#### Deposits by maturity

Short-term deposits	112,080	26	170,290	282,370	52	252
Long-term deposits	316,658	74	-50,851	265,807	48	84

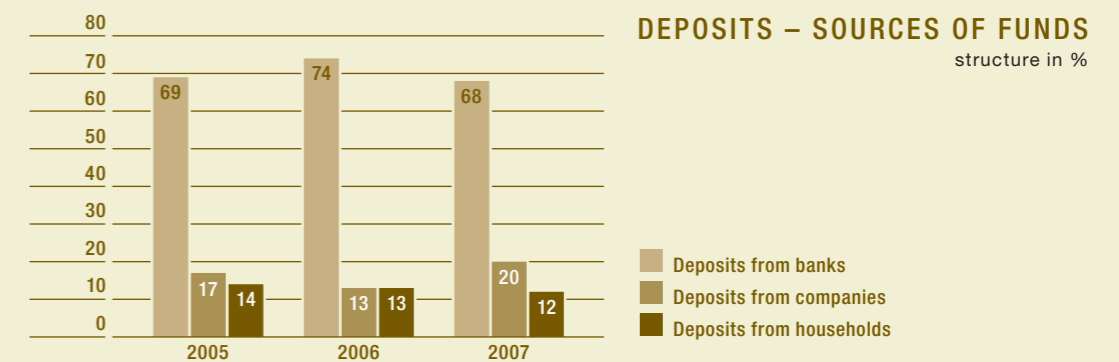
#### Loans by currency

Tolar deposits	412,212	96	29,816	442,028	81	107
Tolar deposits with currency clause	78	0	120	198	0	254
Foreign currency deposits	16,448	4	89,503	105,951	19	644

Deposits made by corporate clients increased by 105% in 2007 to represent 20% of the total deposits.

Deposits made by households increased by 12% in 2007, which is attributable to the bank's active changing of interest rates and the increased number of client accounts. At the end of 2007, deposits made by households stood at 64 million EUR.

Structure of deposits in the last three years:



#### DEBT INSTRUMENTS, AVAILABLE FOR SALE

In 2007, the bank did not sell any of the debt securities held in its portfolio due to the higher interest rates that affected negatively their prices. Nevertheless, the bank's portfolio of long-term debt securities decreased to 13.6 million EUR (or by 6%), mainly due to two bonds maturing in 2007: the first, a bond issued by Landesbank Rheinland Pfalz, matured in January, and the second, a bond issued by the Republic of Slovenia (RS55), matured in February. In December, the bank bought a certain amount of bonds issued by Caja de Valencia y Alicante, which serve as collateral for the guaranteed household deposits.

in thousand EUR

	2006	Structure	Increase	2007	Structure	Index
<b>Investments in securities</b>	<b>14,438</b>	<b>28</b>	<b>-811</b>	<b>13,627</b>	<b>100</b>	<b>94</b>
government bonds	1,090	2	-1,090	0	0	0
bonds issued by Slovenian banks	1,286	2	-36	1,250	9	97
bonds issued by foreign banks	10,397	20	426	10,823	79	104
bonds from issued VB AG (ÖVAG)	1,498	3	-96	1,402	10	94
other bonds	167	0	-15	152	1	91
<b>Short- term securities</b>	<b>37,389</b>	<b>72</b>	<b>-37,389</b>	<b>0</b>	<b>0</b>	<b>0</b>
Bank of Slovenia Bills	37,389	72	-37,389	0	0	0
<b>Total investments in securities</b>	<b>51,827</b>	<b>100</b>	<b>-38,200</b>	<b>13,627</b>	<b>100</b>	<b>26</b>

#### Investments in securities

##### by currency

in EUR	49,515	96	-37,921	11,594	85	23
In foreign currency	2,313	4	-279	2,033	15	88

## PAYMENTS

The introduction of the euro in Slovenia was the first barrier to payment transactions that fell in 2007: later followed the start of SEPA (Single Euro Payments Area) and migration from TARGET to TARGET2 (Trans-European Automated Real-time Gross Settlement Express Transfer system). Volksbank – Ljudska banka successfully and timely adapted to the new circumstances in the area of payment transactions, both domestic and cross-border, which reflected positively on its results.

#### International payment transactions

Compared to 2006, the total volume of payment transactions increased by 63%. The lost business from the outgoing euro payments executed for clients not having an account with the bank was compensated by the growing number of clients having an account with the bank, as well as by the increased volume of transactions by the existing clients.

The total volume of international payment transactions amounted to 1,652 million EUR in 2007.

Structure of international payment transactions:

in thousand EUR

PPT	2006	structure	increase	2007	structure
Incoming	543	54	313	856	52
Outgoing	469	46	327	796	48
<b>Total</b>	<b>1,012</b>	<b>100</b>	<b>640</b>	<b>1,652</b>	<b>100</b>

The foreign payments are executed via European payment systems such as TARGET2 and STEP2, which are used more and more frequently. Some international payment transactions are nevertheless still executed through its own correspondent network, which consists of nine nostro accounts abroad and four loro accounts with the bank.

The number of STP payment orders increased to 90% and is still growing.

As much as 71% of international payments were made through the internet banking channel (VB Online).

#### Domestic payment transactions

Domestic payment transactions also increased in 2007, namely by 6%.

The total volume of domestic payment transactions amounted to 8,160 million EUR in 2007.

Structure of domestic payment transactions:

in thousand EUR

DPP	2006	Structure	increase	2007	Structure
Incoming	3,538	51	607	4,145	51
Outgoing	3,483	49	532	4,015	49
<b>Total</b>	<b>7,021</b>	<b>100</b>	<b>419</b>	<b>8,160</b>	<b>100</b>

With the introduction of the euro, the Slovenian real-time gross settlement (BPRČ) system stopped operating. It was temporarily replaced by the German RTGSplus, but ever since 19 November 2007, also domestic large-value payments, urgent payments and settlements are made through TARGET2.

As much as 77% of domestic payments were made through the internet banking channel (VB Online).

## INSURANCE PRODUCTS

The bank was very successful in selling insurance policies for the Victoria Volksbanken insurance company. Insurance products excellently complement its other products, in particular loan products. They allow the bank to offer its clients safe borrowing, mainly by selling them life and accident insurance products.

The bank, together with the insurance company, presented to its clients this line of products during the so-called "insurance weeks". These were organised in all its branches and focused on life insurance products. The bank sees in the Victoria Volksbanken insurance company a long-term partner and intends to upgrade this relationship with products intended for other client segments. Already in 2007, this relationship was very successful, as demonstrated by excellent non-interest income growth (arising from the commissions earned by the bank for selling the insurance company's policies). The bank expects income from this line of business to continue growing.

## DERIVATIVE FINANCIAL INSTRUMENTS

In 2007 the Bank kept to its business strategy in trading with derivatives such as foreign exchange forwards and swaps, where the Bank transacted with the Bank of Slovenia, other commercial banks and companies. Companies are increasingly aware of the use of derivatives to reduce their currency risks. As a rule, the Bank concludes future contracts within certain limits with highly rated customers, and closes them in the domestic and international inter-bank markets. The major share of FX swaps is 7-day currency swaps with the Bank of Slovenia. For protection against interest risk the Bank bought two interest rate swaps in November 2006 from the VB AG, which is the 51% owner of the VBI AG (both deals add up to 2 million EUR). The swaps are measured at fair value and are not designated as hedging items in the sense of Hedge Accounting defined in IAS 39.

## INVESTMENT CERTIFICATES

Volksbank – Ljudska banka is shifting its market position from a bank specialised in loans to a centre offering financial solutions. In this, it has been focused, ever since mid-2007, on investment certificates in particular, which are currently the fastest-growing segment of global financial markets.

Investment certificates are derivative financial instruments the value or price of which depends on or derives from the value of the underlying instrument, which might be a share, a bond, an index, a currency, an interest rate, a precious or a non-precious metal, oil or something else. The main purpose of this product is to offer investors the desired relationship between return, risk and liquidity.

An investment certificate holder is not the direct owner of the underlying assets, but the owner of the investment certificate or debt security bought. An investment certificate guarantees the holder a certain type of redemption/payment basis and a certain type of interest basis. These features, on the other hand, guarantee success of investment certificates in the difficult times of substantial market corrections. Investment certificates are liquid, as their holders may sell them at any time without incurring any additional costs, and transparent, as their holders may monitor their value on a daily basis. Investment certificates are listed on stock exchanges. Their market price depends on market situation, as well as on their interest rate and market price of the underlying instrument.

In 2007, Volksbank – Ljudska banka, together with VB AG, the issuer and at the same time also the owner of the bank's parent bank, offered in the Slovenian market two issues of investment certificates.

The Garant Top 20 investment certificate was issued in July 2007. It is intended for investors wishing to invest in the world's leading companies without taking high risks. The certificate guarantees a 100% repayment of the principal amount and an annual return that is linked to the performance of the underlying shares and might reach 10%. The annual coupon interest rate depends on the prices of shares in the basket, with the minimum guaranteed annual coupon interest rate being 2.6%.

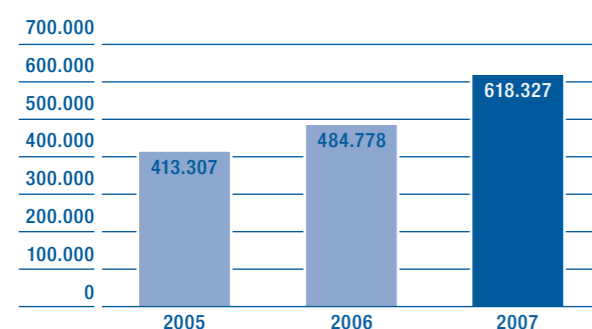
In October 2007, the second investment certificate was issued, Garant Top 20 II. This certificate also guarantees a 100% repayment of the principal amount and an annual return that is linked to the performance of the underlying shares and might reach 11.5%. The minimum guaranteed annual coupon interest rate is 2.5%.

In 2007, the bank sold investment certificates worth 11 million EUR.

## FINANCIAL POSITION

At the close of 2007 the Bank's balance sheet total amounted to 618 million EUR, rising by 133.5 million EUR or 28% over 2006.

Growth of the balance sheet total in the last three years:



**FINANCIAL POSITION**  
thousand EUR per 31.12.

26

## STRUCTURE OF ASSETS

Changes in assets:

in thousand EUR

Assets	2006	Structure	Increase	2007	Structure	Index
Cash and cash balances with central banks	20,622	4	-13,391	7,231	1	35
Financial assets held for trading	44	0	-28	16	0	36
Available-for-sale financial assets	52,249	11	-37,361	14,888	2	28
Loans and receivables	386,748	80	191,225	577,973	93	149
Held-to-maturity investments	6,075	1	-7	6,068	1	100
Accrued interest income on financial assets	8	0	-8	0	0	0
Tangible assets	7,672	2	545	8,217	1	107
Intangible assets	489	0	-54	435	0	89
Investments in subsidiaries, associates and joint ventures	1,614	0	0	1,614	0	100
Tax assets	541	0	-279	262	0	48
Other assets	8,716	2	-7,093	1,623	0	19
<b>TOTAL ASSETS</b>	<b>484,778</b>	<b>100</b>	<b>133,549</b>	<b>618,327</b>	<b>100</b>	<b>128</b>

In 2007 the Bank's assets increased by 133.5 million EUR or 28%. The most important assets remained loans to banks and non-bank customers which accounted for 93% of

all assets and saw a nominal increase of 191 million EUR or 49% in 2007. The loans to companies grew by 97.6 million EUR, loans to retail customers by 69.6 million EUR and loans to bank increased by 23.9 million EUR.

Available for sale financial assets are the second most important item of the Bank's assets, making up 2% of all assets and decreasing for 37 million EUR or by 77% in 2007. The most significant was the decrease of short term financial assets, which were placed in Banka Slovenija Bills. After the transition to euro Banka Slovenije stopped issuing that product.

The position Cash and cash balances with central banks reached 7.2 million EUR, which is a direct consequence of the euro transition. The fixed assets increased for 0.5 million EUR in 2007, which is mostly because of the investment into new branch in Ljubljana – Dvorni trg.

27

## STRUCTURE OF LIABILITIES

Changes in liabilities:

in thousand EUR

Liabilities	2006	Structure	Increase	2007	Structure	Index
Financial liabilities held for trading	37	0	-37	0	0	0
Financial liabilities measured at amortised cost	444,841	92	122,265	567,106	92	127
Accrued interest expenses on financial liabilities	7	0	-7	0	0	0
Provisions	279	0	83	362	0	130
Tax liabilities	536	0	-68	468	0	87
Other liabilities	8,549	2	-6,204	2,345	0	27
Basic equity capital	22,572	5	8,805	31,377	5	139
Share premium account	12,818	3	6,193	19,011	3	148
Revaluation reserves	13	0	-231	-218	0	-1741
Reserves from profit (including retained earnings)	-5,580	-1	707	-4,873	-1	87
Income from current year	708	0	2,040	2,748	0	388
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>484,778</b>	<b>100</b>	<b>133,549</b>	<b>618,327</b>	<b>100</b>	<b>128</b>

On the liabilities side, Financial liabilities measured at amortised cost saw the largest growth last year, i.e. by 122.2 million EUR. To the great extent it is the result of targeted borrowings from the VBI AG bank whose purpose was to obtain refinancing funds with the quality, price, maturity and currencies enabling high-quality lending to our clients and balanced management of all risks arising from the bank's balance sheet. In addition, the bank increased deposits from non - bank clients by offering attractive interest rates, which resulted in lower costs of refinancing and improved loan/deposit ratio. The rest can be explained by short term liquidity management through at VB AG.

The provisions increased by 30% or 83 million EUR. Provisions were higher because of the additional provisions for loyalty bonus and termination benefits and also due to other provisions.

### OFF-BALANCE-SHEET OPERATIONS

The volume of off-balance-sheet operations involving risk that include the Bank's commitments and liabilities increased in 2007.

in thousand EUR

Off-balance-sheet items involving risk	2006	Structure	Increase	2007	Structure	Index
Guarantees	11,755	14	11,227	22,982	18	196
Financial assets pledged at Bank of Slovenia	9,865	12	6,804	16,668	13	169
Outstanding letters of credit	1,652	2	-736	917	1	55
Assumed liabilities	54,974	66	35,378	90,352	69	164
Derivative financial instruments	5,471	7	-5,273	198	0	4
<b>TOTAL</b>	<b>83,717</b>	<b>100</b>	<b>47,401</b>	<b>131,118</b>	<b>100</b>	<b>157</b>

The issuing of guarantees increased in 2007, especially on account of guarantees that grew by 96%.

Assumed liabilities increased by 64%. This item includes liabilities for non-disbursed credit lines, liabilities for approved but non-disbursed loans, and liabilities arising from letters of intent.

## FINANCIAL RESULT

The Bank closed the 2007 business year with a net profit of 2,748 thousand EUR. Profit and loss account is presented in accordance with the International Financial Reporting Standards. The structure of net income and expense in 2007 is shown in the following table:

in thousand EUR

Net income and expenses	Result 1. 1. - 31. 12. 2006	Increase	Result 1. 1. - 31. 12. 2007	Index
Net interest and similar income	8,736	3,324	12,060	138
Net fee and commission income	2,171	-466	1,705	79
Realised gains and losses on financial assets and liabilities not measured at fair value through profit and loss	-49	60	11	-22
Gains and losses on financial assets and liabilities held for trading	660	280	940	142
Foreign exchange differences	-43	-67	-110	256
Gains and losses on derecognition of assets other than held for sale	162	-153	9	6
Other operating net income	130	23	153	118
General administrative costs with depreciation	-10,110	-809	-10,919	108
Provisions	24	-164	-140	-583
Impairment	-559	-124	-683	122
<b>Total profit or loss before tax</b>	<b>1,123</b>	<b>1,903</b>	<b>3,026</b>	<b>270</b>
Income Taxes, including deferred Tax	-415	137	-278	67
<b>Net profit or loss for the financial year</b>	<b>708</b>	<b>2,040</b>	<b>2,748</b>	<b>388</b>

Net interest income without income out of bad loans and without accruals of loan origination fees increased by 40%, thereby following the growth of loan business, which amounted to 46%. Net interest income in total grew by 38%.

Net fee and commission income for banking services decreased for 466 thousand EUR or 21% in 2007. After transition to euro the fee income from foreign payments decreased significantly. Further, the fee expense grew. In the first four months of 2007 the Banka

Slovenija Bills, which served as a liquidity buffer, expired. Consequently, the bank had to take higher interbank credit line for liquidity, for which it pays commitment fee for its unused part. In this way, the bank managed to keep liquidity ratio at an appropriate level from the liquidity risk management perspective.

Net profit out of financial assets and liabilities held for trading increased for 42% or for 280 thousand EUR. The highest contribution to the improved result was given by the sale of investment certificates (structured products) to institutional investors and private sector. The profit out of the difference in price at selling structured products amounted 304 thousand EUR in 2007. On one hand the result out of foreign exchange transactions, which is also shown under that position, is significantly lower due to the transition to euro. On the other hand, the net profit out of derivatives grew strongly. Since the bank often used derivatives for the purpose of closing fx positions, this positive figure has to be taken into consideration together with the position Foreign exchange differences, which increased for 67 thousand EUR.

The net result out of foreign exchange differences did not change significantly in comparison to 2006.

The position Gains and losses on derecognition of assets other than held for sale was much lower 2007. The relatively high result in 2006 is a result of the sale of investment property.

General administrative costs with depreciation were 8% higher than in 2006. They comprise the costs of materials and services and the costs of depreciation.

The Bank booked for 683 thousand EUR impairment in 2007 in accordance with its new policy for assessment of credit risk losses.

## EXPOSURE TO RISKS

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

There are several risks inherent in banking operations that differ in terms of their nature and level. Banks, on the other hand, also differ in their propensity to take risks, which depends on their size, organisation and culture. As regards propensity to take credit risk, for example, one bank could assess this risk as high and the other as low. This would also affect their market activities (which would be more or less aggressive and innovative), credit portfolio concentration, product diversification, collateral types, etc. Both approaches are perfectly legitimate and each could be the proper one under the given circumstances.

The central bank of Slovenia 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 taking-up and managing risks, revealing their approach to risks taken within the scope of their activities.

Strategies for taking-up and managing risks must comprise:

- the objectives of and the general principles for taking-up 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 taking-up and managing risks, and other information required under the "Regulation on the books of account and annual reports of banks and savings banks" and IFRS 7.

## SHARE CAPITAL AND SHAREHOLDERS

The Bank's shareholding capital comprises of the subscribed capital and capital reserves, profit reserves, capital evaluation adjustment, retained profit or loss and net operating result of the past business year.

The subscribed capital changed in 2007. It is comprised of 7,524,542 ordinary shares with nominal value of 4.17 EUR. Capital reserves represent mostly the paid up surplus capital. At the 26rd regular Assembly of Volksbank – Ljudska banka d.d., on September 26, 2007 a resolution on issue of 2,115,447 ordinary nominal shares of the 7th issue in the nominal value of 4.17 EUR for each was adopted. The shares were paid in at the price of 7.09 EUR which means that the difference above the nominal value represents a paid up surplus capital or the capital reserves.

Book share value, calculated from the gross capital, per December 31, 2007 is 6.39 EUR which is 0.74 EUR more than on December 31, 2006.

So the total share holding capital of the Bank has increased in 2007 by 57% or 17.5 million EUR, of that the net operating result has brought 2.7 million EUR, a decrease of capital evaluation adjustment decreased the capital by 218 thousand EUR.

Movement of the share capital in 2007 can be seen from the following table:

in thousand EUR

Share capital	2006	Structure	Increase	2007	Structure	Index
Subscribed capital	22,572	74	8,805	31,377	65	139
Capital reserves	12,818	42	6,193	19,011	40	148
Revaluation reserves	13	0	-231	-218	0	-1741
Other reserves	-5,580	-18	707	-4,873	-10	87
Net operating result	708	2	2,040	2,748	6	388
<b>Total share capital</b>	<b>30,529</b>	<b>100</b>	<b>17,516</b>	<b>48,045</b>	<b>100</b>	<b>157</b>

At the end of last year 34 owners of shares were subscribed in the share register, of that 3 foreign and 31 domestic.

#### Shareholder of the Bank per December 31, 2007

in %

Shareholders of the Bank	Share in the share holding capital of the Bank
VOLKSBANK INTERNATIONAL AG VIENNA	95.49
EM.RO POPOLARE S.P.A. MODENA	3.00
BANCA POPOLARE DI VICENZA	1.44
Domestic shareholders	0.07
<b>TOTAL</b>	<b>100.0</b>

The accounting statements of Volksbank – Ljudska banka d.d. are included in the consolidated accounting statements prepared by the group VB AG from Vienna. These statements are available at the address Kolingasse 19, Vienna and at the head office of Volksbank – Ljudska banka d.d. in Ljubljana. In its portfolio the Bank does not have own shares and did not form reserves to purchase own shares.

The Volksbank International - AG (VBI AG) held 95.49% of the shares at the end of 2007. VBI AG, Vienna is a holding company of daughter banks of the concern VB AG in the middle and south Europe. Besides Volksbank – Ljudska banka in Slovenia it also owns banks in Slovakia, the Czech Republic, Hungary, Romania, Bosnia and Herzegovina, Serbia and Ukraine with over 545 branches and employing over 5,218 people.

The strategic owners of VBI AG are the French bank Banque Federale des Banques Populaires, German bank DZ Bank AG, Frankfurt am Main and WGZ from Duesseldorf and the Austrian concern Volksbank AG (VB AG) with its head office in Vienna. This way they were able to strengthen their activities in the area of middle and east European countries, among them also in Slovenia.

## PAST AND PRESENT DEVELOPMENT

Volksbank – Ljudska banka d.d. was established on 18 June 1991 with the original name Štajerska banka obrti in podjetništva d.d., Celje. After Slovenia became an independent state, the banking legislation was revised and the conditions on guarantee capital requirements became much stricter. In order to comply with the strict banking requirements, the Bank began to look for a strategic business partner able to raise additional capital.

Having obtained the approval of the Bank of Slovenia, Österreichische Volksbanken-AG from Vienna (today VB AG) became the majority shareholder in April 1993. It injected additional capital, after which the Bank was granted a licence for unlimited domestic and international banking services.

Up until 1994 the headquarters of Volksbank – Ljudska banka d.d. were in Celje, and in May 1995 were transferred to Ljubljana.

At end of the year 2004 the Group Österreichische Volksbanken AG (today VB AG) transferred its majority share to the newly established company VBI AG, Vienna, which is a holding company for subsidiary banks belonging to VB AG in CEE countries.

#### Branch network

In the year 2007, just as in any previous year, the Bank continued in its endeavours to extend its business network. Besides its head quarters at Dunajska cesta 128 a in Ljubljana, the branch office at Miklošičeva ulica and branch office at Pavšičeva ulica, the Bank opened a new branch at Dvorni trg in 2007. The bank has also branches in other regions in Slovenia:

- Koper branch,
- Kranj branch,
- Celje branch, with agencies Tepanje and Šentjur pri Celju,
- Maribor branch

After moving to the new premises in the first half of 2001 the Bank also opened an agency in its new building at Dunajska cesta 128 a. A long term plan includes Bank's presence in all larger regions cities of Republic of Slovenia.

### Capital investments

In 2007, the bank acquired new hardware (a disk field EVA) to upgrade the disk supporting banking software and other software, thus enhancing stability and responsiveness of such software. Together with Oracle experts, the bank also continued with optimisation of the Oracle production base.

Late in 2007, the bank upgraded the SWIFT communication connection.

The bank also expanded the existing office building at Dunajska cesta 128 a by adding another floor, thus obtaining an area that can accommodate 22 employees.

### Information support

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

In 2007, the primary objective of the organisation and information technology area was implementation of TARGET 2, SEPA SCT and SISBON software.

Additionally, the area also completed the following major tasks: they connected the loan/deposit module with the counter module to allow execution of standing orders associated with foreign currency-denominated loans to natural persons; they automated the transfer of the daily price of the Ljubljana Stock Exchange and Reuters to HIBIS; they standardised the open item statements for legal persons; they entered or imported collateral in the form of property and securities in the collateral module; etc.

In order to protect the bank against threats from outside, they also upgraded the firewall and reviewed the existing applicable rules.

Together with the ADOACTA supplier, they also implemented the AdInvest application for transactions associated with securities and mutual funds.

In October 2007, they started preparing a test environment for the IMIS document management system. Implementing such system entails usage of electronic documents in all business processes which, in turn, must also be conducted electronically. All

documents must be first converted to electronic format and only then circulated among those involved in a process.

In order to ensure continuous delivery of all critical banking services, the bank regularly updates its business continuity plan and trains employees for work under crisis circumstances. Pursuant to the said plan, the bank acquired additional backup hardware and communication equipment, which would allow continuous operation in case of failure of primary hardware and communication equipment. A switch over to the secondary location was also made.

With the new branch of the Dvorni trg square, the bank also obtained a more suitable secondary location, where it moved all hardware in October 2007.

All the above-mentioned activities, as well as others pursued by the organisation and information technology area in order to expand and upgrade the system supporting new banking products, as well as to improve internal business processes, 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.

### Employee

In 2007, growth in the number of employees moderated compared to 2006: the number of employees increased by 7.7%, while in 2006, it increased by 9.7%. In the course of the year, 29 persons joined the bank and 16 persons left. The bank had to increase its staff mainly due to its increased business and new products, as well as due to the new Ljubljana branch.

As at year-end, the number of employees stood at 183, while the average number of employees in 2007 was 177.6. As at year-end, more than half of all employees (94 or 51.4%) had at least higher education (2.7% had postgraduate education, 40.5% had university education and 8.2% had higher education), while the remaining 48.6% had secondary education. Educational structure has been improving significantly every year on account of new employees with at least higher education, but also on account of the bank's policy to stimulate further education of the existing employees.

## INFORMATION ABOUT THE VOLKSBANK – LJUDSKA BANKA D.D. GROUP

Employees participated in the following training:

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

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

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

The Bank is the 100% owner of the affiliated company Privatinvest d.o.o. Ljubljana, with the same address as the Bank. As at December 31<sup>st</sup> 2007 the balance sheet total of the affiliated company was 1,938,753 EUR and represented less than 1% (0,31% precisely) of the Bank's balance sheet total. The nominal value of its equity share amounts to 1,614,209.62 EUR. The business activity of Privatinvest is 70,310 - real estate agencies. The company's directors are Simona Volaj Rakušček and Mag. Johann Staudigl. Due to its small share in contributing to the financial position of the group, the Bank of Slovenia was officially notified about the exclusion of this company from the consolidation, which is enabled in article 7 of the Resolution on the Supervision of Banks and Savings Banks on consolidated basis.

## REPORT OF THE SUPERVISORY BOARD

The Supervisory Board acted in accordance with the Banking Act (Zban-1/ Official Gazette RS, no. 131/06), Company Act (ZGD-1/ Official Gazette RS No. 42/06), Resolution on Due Diligence of Banks and Saving Banks Management and Supervisory Board members' Resolution (Official Gazette RS No. 28/07), Bank's Articles of Association and the Rules on Procedure of the Supervisory Board.

40 In 2007 the Supervisory Board of Volksbank – Ljudska banka d.d. acted in the following structure: President Gerhard Wöber (President since October 11th, 2007, prior Deputy President), Deputy President Wolfgang Hofstetter (Deputy President since October 11th, 2007, prior member), Thomas Capka, Fausto Maritan, Denis Le Moullac (President until October 1st, 2007, thereafter resignation from Supervisory Board duties), Hans Janeschitz (until June 14th, 2007), Manfred Wiebogen (until June 14th, 2007). The Supervisory Board is composed of bank shareholders' representatives, equipped with the necessary knowledge and experience needed for the adoption of resolutions which are in the best interest of the bank as well as assuring an independent, unbiased, professional, objective, fair and wholesome personal judgement when carrying out the functions of a member of the Supervisory Board. Among themselves the Supervisory Board members elected a President and one Deputy President.

In 2007, at its four regular sessions and one constitutional sessions and through the Managing Board's Reports the Supervisory Board examined the legality, expediency and economy of the bank's Management. Current Management reports kept it informed and in 2007 it adopted the necessary resolutions. The Supervisory board members attended the sessions at a high rate so that the attendance of the members in the regular sessions altogether amounted 86%.

In the first half of the year the Supervisory Board focused mainly on discussing and confirming the Business Results of 2006 and also the Internal Audit's annual report. It also gave its consent to the Internal Audit's working plan for 2007.

Throughout 2007 the Supervisory Board supervised the realisation of the resolutions adopted by the Supervisory Board and the Shareholders' General Assembly. It discussed quarterly reports of the Internal Audit and of other supervisory bodies, as well as the Managing Board's reports on the banking operation, and issued the Agreement to the decision of the financial plan of the bank for the year 2007 and supervised the adequacy of the internal control system organisation. During 2007 the Supervisory Board punctually

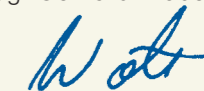
followed all the important matters that referred to the bank's operation and strategy and policies and assured the effectiveness of the Supervisory Board. During 2007 the Supervisory Board regularly supervised the running of the Management and bank's operation and actively cooperated in and discussed the reports of the Management, Internal Audit and the certified Auditor.

The Annual report 2007 as of December 31st, 2007 was audited by the auditing company KPMG Slovenia, podjetje za revidiranje, d.o.o., Ljubljana. In the opinion of the certified auditor the financial statements present fairly, in all material aspects, the financial position of Volksbank – Ljudska banka d.d. as at December 31st, 2007, the result of its operations and its cash-flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union. The Management report is in conformity with the audited consolidated financial statements.

41 According to the opinion of the certified auditor and the report of the Managing Board regarding the annual financial statements for 2007 the Supervisory Board confirmed the Annual Report 2007.

The Supervisory Board expresses its appreciation to the Managing Board and the employees of the bank for their achievements in the year 2007.

Mag. Gerhard Wöber



Chairman of the Supervisory Board  
In Ljubljana, May 2008

GAŠPER JEMEC

42



»Travel Object«, 2007,  
wood, metal, acrylic colour, printed on canvas,  
20 x 15 x 12 cm + 300 x 106 cm,  
photo by Matija Pavlovec



ZAUPANJE NAS POVEZUJE.  
UNITED IN TRUST.

07

## STATEMENT ON RESPONSIBILITY OF THE MANAGEMENT BOARD

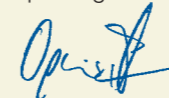
The Management Board confirms the financial statements as at 31 December 2007 on pages 48 – 55, the notes on the financial statements on pages 59 – 126 and the consolidated financial statements as at 31 December 2007 on pages 132 – 140.

The Management Board is responsible for preparing an annual report that shows a true and fair view of the Bank's assets and profit or loss.

The Management Board confirms that appropriate accounting policies were applied and that the accounting estimates were made with due prudence and sound management.

Ljubljana, May 7<sup>th</sup> 2008

Gašpar Ogris – Martič



Chairman

Aleš Zajc



Deputy Chairman

Johann Staudigl



Board Member

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Volksbank – Ljudska banka d.d. Ljubljana

We have audited the accompanying financial statements of the bank Volksbank – Ljudska banka d.d. Ljubljana which comprise the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We also read the Management Report.

### 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 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statement are free of material misstatements. An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 Volksbank – Ljudska banka d.d. Ljubljana as at 31 December 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Management Report is in conformity with the audited financial statements.

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

Marija Hejja, univ. B.Sc.Ec.



Certified Auditor

Boris Drobnič, B.Sc.Ec.



Certified Auditor  
Partner

Ljubljana, May 7<sup>th</sup> 2008

## FINANCIAL STATEMENTS

### BALANCE SHEET AS AT 31. 12. 2007

in thousand EUR	Notes	31. 12. 2007	31. 12. 2006
<b>ASSETS</b>			
Cash and cash balances with central banks	4	7,231	20,622
Financial assets held for trading	5	16	44
Available-for-sale financial assets	6	14,888	52,249
Loans and receivables	7	577,973	386,748
loans and receivables to banks	7.1	50,357	26,403
loans and receivables to non-bank customer	7.2	527,615	360,345
Held-to-maturity investments	8	6,068	6,075
Accrued interest income on financial assets		0	8
Property, plant and equipment	9	8,217	7,672
Intangible assets		435	489
Investments in subsidiaries, associates and joint ventures	11	1,614	1,614
Tax assets	12	262	541
current taxes		1	0
deferred taxes		261	541
Other assets		1,623	8,716
<b>TOTAL ASSETS</b>		<b>618,327</b>	<b>484,778</b>

48

in thousand EUR	Notes	31. 12. 2007	31. 12. 2006
<b>LIABILITIES</b>			
Financial liabilities held for trading	14	0	37
Financial liabilities measured at amortised cost	15	567,106	444,841
Deposits from banks	15.1	116,186	7,273
deposits from non-banks	15.2	174,184	110,941
loans and advances from banks	15.3	257,807	310,505
loans and advances from non banks	15.3	0	20
subordinated liabilities	15.5	18,928	16,103
Accrued interest expenses on financial liabilities		0	7
Provisions	16	362	279
Tax liabilities	17	468	536
deferred tax liabilities		468	536
Other Liabilities	18	2,345	8,549
<b>TOTAL LIABILITIES</b>		<b>570,282</b>	<b>454,249</b>
<b>EQUITY</b>			
Basic equity capital	19	31,377	22,572
Share premium account	19	19,011	12,818
Revaluation reserves	19	-218	13
Reserves from profit (including retained earnings)	19	-4,873	-5,580
Income from current year	19	2,748	708
<b>TOTAL EQUITY</b>		<b>48,045</b>	<b>30,529</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>618,327</b>	<b>484,778</b>

49

## INCOME STATEMENT FOR 2007

in thousand EUR

	Notes	31. 12. 2007	31. 12. 2006
Interest income and similar income	22	29,342	20,994
Interest expenses and similar expenses	22	-17,282	-12,258
<b>Net interest income</b>	<b>22</b>	<b>12,060</b>	<b>8,736</b>
Fee and commission income	24	2,663	2,490
Fee and commission expense	24	-958	-319
<b>Net fee and commission income</b>	<b>24</b>	<b>1,705</b>	<b>2,171</b>
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	25	11	-49
Gains and losses on financial assets and liabilities held for trading	26	940	660
Exchange differences	27	-110	-43
Gains and losses on derecognition of assets other than held for sale	28	9	162
Result from other operating activities	29	153	130
Administrative expenses	30	-10,211	-9,309

50

in thousand EUR

	Notes	31. 12. 2007	31. 12. 2006
Amortisation	31	-708	-801
Provisions	32	-140	24
Impairment	32	-683	-559
<b>Total profit and loss before tax from continuing operations</b>	<b>33</b>	<b>3,026</b>	<b>1,123</b>
Tax expense (income) related to profit and loss from continuing operations	33	-278	-415
<b>Total profit and loss after tax from continuing operations</b>	<b>33</b>	<b>2,748</b>	<b>708</b>
Total profit or loss after tax from discontinued operations		0	0
<b>Net profit or loss for the financial year</b>		<b>2,748</b>	<b>708</b>

in EUR

Basic earnings per share	19	0.37	0.13
Diluted earnings per share	19	0.37	0.13

51

**STATEMENT OF CHANGES IN EQUITY CAPITAL  
FOR THE PERIOD 1. 1. - 31. 12. 2007**

in thousand EUR

Item description	Basic equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
<b>OPENING BALANCE FOR THE REPORTING PERIOD</b>	22,572	12,818	13	6	-5,586	708	30,529
Net gains/losses in revaluation reserves from financial assets available for sale			-231				-231
<b>Total gains/losses after tax recognised directly in equity - revaluation reserves (2 to 5)</b>			-231				-231
Net profit or loss for the financial year (from income statement)						2,748	2,748
<b>Net profit or loss for the financial year recognised in equity (6+7)</b>	0	0	-231	0	0	2,748	2,517
New share capital subscribed (paid)	8,806	6,193					14,999
Covering of the loss brought forward					708	-708	0
<b>CLOSING BALANCE FOR THE REPORTING PERIOD</b>	31,377	19,011	-218	6	-4,879	2,748	48,045
<b>BALANCE SHEET AVAILABLE PROFIT for financial year</b>				6	-4,879	2,748	-2,125

52

**STATEMENT OF CHANGES IN EQUITY CAPITAL  
FOR THE PERIOD 1. 1. - 31. 12. 2006**

in thousand EUR

Item description	Basic Equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
<b>OPENING BALANCE FOR THE REPORTING PERIOD</b>	16,730	8,728	51	6	-6,236	649	19,929
Net gains/losses in revaluation reserves from financial assets available for sale			-38				-38
<b>Total gains/losses after tax recognised directly in equity - revaluation reserves (2 to 5)</b>			-38				-38
Net profit or loss for the financial year (from income statement)						708	708
<b>Net profit or loss for the financial year recognised in equity (6+7)</b>	0	0	-38	0	0	708	669
New share capital subscribed (paid)	5,842	4,089					9,932
Covering of the loss brought forward					649	-649	0
<b>CLOSING BALANCE FOR THE REPORTING PERIOD</b>	22,572	12,818	13	6	-5,586	708	30,529
<b>BALANCE SHEET AVAILABLE PROFIT for financial year</b>				6	-5,586	708	-4,873

53

**STATEMENT OF CASH FLOWS FOR THE PERIOD  
FROM 01. 01. 2007 TO 31. 12. 2007**

in thousand EUR

Desig.	Item description	31. 12. 2007	31. 12. 2006
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
a)	<b>Total profit or loss before tax</b>	3,026	1,123
	Depreciation	708	801
	Impairments / (reversal of impairments) of financial assets held to maturity	683	559
	Net (gains) / losses from exchange differences	110	42
	Net (gains) / losses from financial assets held to maturity	42	50
	Net (gains) / losses from sale of tangible assets and investment properties	-12	-162
	Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	-92	-14
	Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)	0	51
	Other adjustments to total profit or loss before tax	126	-24
	<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	4,591	2,426
b)	<b>(Increases) / decreases in operating assets</b>	<b>-115,241</b>	<b>-60,496</b>
	Net (increase) / decrease in financial assets available for sale	41,452	40,950
	Net (increase) / decrease in loans and receivables	163,712	-94,141
	Net (increase) / decrease in interest on financial assets (accrued income)	-8	-7
	Net (increase) / decrease in deferred charge	-24	13
	Net (increase) / decrease in non-current assets held for sale	0	-41
	Net (increase) / decrease in other assets	7,051	-7,270
c)	<b>(Increases) / decreases in operating liabilities</b>	<b>115,150</b>	<b>61,729</b>
	Net (increase) / decrease in financial liabilities held for trading	27	34
	Net (increase) / decrease in deposits, loans and receivables and debt securities measured at amortised cost	121,322	54,934
	Net (increase) / decrease in interest on financial liabilities (accrued expenses)	7	-31
	Net (increase) / decrease in deferred income	97	124
	Net (increase) / decrease in other liabilities	-6,303	6,668

54

in thousand EUR

Desig.	Item description	31. 12. 2007	31. 12. 2006
č)	<b>Cash flow from operating activities (a+b+c)</b>	<b>4,500</b>	<b>3,659</b>
d)	<b>Income taxes (paid) refunded</b>	<b>0</b>	<b>0</b>
e)	<b>Net cash flow from operating activities (č+d)</b>	<b>4,500</b>	<b>3,659</b>
<b>B. CASHFLOWS FROM INVESTING ACTIVITIES</b>			
a)	<b>Receipts from investing activities</b>	<b>33</b>	<b>338</b>
	Receipts from the sale of tangible assets and investment properties	33	172
	Other receipts from investing activities	0	166
b)	<b>Cash payments on investing activities</b>	<b>4,961</b>	<b>760</b>
	(Cash payments to acquire tangible assets and investment properties)	1,113	686
	(Cash payments to acquire intangible fixed assets)	61	0
	(Cash payment for the investment in subsidiaries, associates and joint ventures)	838	74
	(Cash outflow to non-current assets or liabilities held for sale)	2,949	0
c)	<b>Net cash flow from investing activities (a-b)</b>	<b>-4,928</b>	<b>-422</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
a)	<b>Cash proceeds from financing activities</b>	<b>17,799</b>	<b>9,932</b>
	Cash proceeds from subordinated liabilities issued	2,800	0
	Cash proceeds from issuing shares and other equity capital instruments	14,999	9,932
b)	<b>Cash payments on financing activities</b>	<b>835</b>	<b>0</b>
	(Other cash payments related to financial activities)	835	0
c)	<b>Net cash flow from financing activities (a-b)</b>	<b>16,964</b>	<b>9,932</b>
D.	<b>Effects of change in exchange rates on cash and cash equivalents</b>	<b>-92</b>	<b>-14</b>
E.	<b>Effects of change in fair value on cash and cash equivalents</b>	<b>0</b>	<b>0</b>
F.	<b>Net increase in cash and cash equivalents (Ae+Bc+Cc)</b>	<b>16,536</b>	<b>13,169</b>
G.	<b>Opening balance of cash and cash equivalents</b>	<b>32,414</b>	<b>19,259</b>
H.	<b>Closing balance of cash and cash equivalents (D+E+F+G)</b>	<b>48,858</b>	<b>32,414</b>

55

## NOTES TO THE FINANCIAL STATEMENTS

GAŠPER JEMEC



»Port«, 2007,  
luminous visual object,  
printed on canvas, colour foils,  
special illumination, metal frame, wood,  
320 x 300 x 100 cm,  
photo by Matija Jemec

56



ZAUPANJE NAS POVEZUJE.  
UNITED IN TRUST.

07

## 1. INTRODUCTION

Volksbank – Ljudska banka, Dunajska cesta 128 a, 1000 Ljubljana, prepared its annual report in accordance with International Financial Accounting Standards and the Decree on Financial Records and Annual Reports of Banks and Savings Banks. In forming its accounting policies, the Bank also considered other legislation such as the Decree on the Assessment of credit risk losses of Banks and Savings Banks, and other decrees and instructions issued by the Banks of Slovenia.

The Bank's consolidated financial statements have been prepared in accordance with International Financial Accounting Standards. The consolidated statements include the subsidiary company Privatinvest d.o.o., in which the Bank holds a 100% ownership share. Bank's main owner (95,49%) is Volksbank International AG, Leonard – Bernstein – Strasse, 1220 Wien, Austria, which consolidates in the Volksbank AG Group (previously Österreichische Volksbanken AG), Kolingasse 19, 1090 Wien, where consolidated statements of Volksbank Group are available. The audit was performed by the auditing company KPMG Slovenia, d.o.o. Ljubljana, which in both cases issued an unqualified opinion. No notes to the consolidated financial statements have been prepared, since the total assets of the subsidiary company do not exceed neither 1% of the total assets of Volksbank – Ljudska banka d.d nor 10 million EUR. The notes to the financial statements of Volksbank – Ljudska banka d.d. also apply for the consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, which have been applied when preparing Financial statements, are fully compliant with IFRS and other internal policies of Volksbank – Ljudska banka d.d.

The significant accounting policies applied in the preparation of Financial statements are presented on the next pages. These policies were used in all annual reports, except if stated the other way.

The Policies presented have been consistently applied for both financial years, if not stated differently. If necessary, comparative data was calculated in order to assure comparability with the current period.

### Statement of compliance with IFRS

Financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by EU.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the financial assets held for trading and available-for-sale financial assets.

### Use of estimates and judgements

The preparation of 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 show any such positions, where the bank should change accounting estimates or apply judgments with regard to market conditions or other available information.

Estimates have been applied at impairment of loans to clients, for provisions for off balance risks, for useful life of tangible fixed assets and intangible assets and for provisions for employee benefits and legal risks.

### Definition of the Group

The group consists of Volksbank – Ljudska Banka d.d. as the parent company, which owns 100% of shares of the company Privatinvest d.o.o.

The long term investment into subsidiary is recognised at costs.

### Functional and presentation currency

The position shown in Financial statements are presented in euros, which is functional and presentation currency of the bank as the holding company.

### Translation of business transaction in foreign currency

Foreign currency transactions are translated into functional currency at the rate of exchange at the date of the transaction. Foreign exchange differences are recognised in income statement.

### Property and equipment

The bank decided in its accounting policy to use cost model. After its initial recognition the item is carried at its cost less accumulated depreciation and impaired only if there is an unbiased evidence for impairment.

The calculation of depreciation costs begins the next month after the Bank started using tangible fixed asset. Depreciation of tangible assets is calculated using the straight-line depreciation method.

The useful life is the period of time over which an asset is expected to be used by the Bank and is calculated as follows:

- Buildings up to 40 years
- Computer equipment from 3 to 5 years
- Motor vehicles from 4 to 8 years
- Other equipment from 3 to 10 years
- Licences from 5 to 10 years

Land is recognised separate from the building. Its useful life is unlimited, which is why no depreciation is calculated.

In cases of partial ownership of a building the value of land is added up into its costs at initial recognition.

Tangible asset is derecognised at sale or if no further benefits are expected.

#### Intangible assets

Intangible assets comprise investments into computer software and licences. Depreciation of intangible assets is calculated using the straight-line depreciation method. Intangible assets are derecognised at sale or if no further benefits are expected.

Intangible assets are no longer depreciated, if they are classified as short-term assets held for sale or at derecognition in case when the Bank does not expect any future economic benefits. The bank estimates the recoverable amount of intangible asset once per a year. If it is lower than the amount at cost, the impairment has to be recognised.

#### Investment property

Investment property acquired as a compensation for unpaid debts is initially recognised on the basis of evaluation protocol, which is acquired at the act of compensation. It is measured at costs.

#### Financial assets

At the initial recognition the Bank classifies financial instruments with regard to the purpose of their acquirement, the time scope of their possession and the type of instrument into different categories:

- **Financial assets, at fair value through profit or loss** can either be held for trading, which means that they were acquired exclusively for the purpose of sale in short notice or can be designated as such in accordance with IAS 39. Basically, securities and derivatives belong to that group, except for the derivatives which are designated for hedge accounting.
- **Financial assets held to maturity** are financial assets with determinable cash flow and defined maturity, for which the Bank has a positive intention and ability to hold them to maturity.

- **Financial assets available for sale** are expected to be held in portfolio for indefinite period of time, but they still can be sold for liquidity purposes or due to changes in interest rates, changes in foreign exchange rates or changes in prices of financial instruments.
- **Loans and receivables** are financial assets with fixed or determinable payments that are not quoted in an active market.

When adopting the resolution on acquirement of a security, the ALCO committee classifies financial assets into appropriate category.

The acquirements of financial instruments at fair value through profit or loss are recognised in the books at trade date.

Financial assets with the exception of Financial assets, at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to acquisition.

A gain or loss on financial assets measured at fair value through profit and loss, shall be recognised in profit and loss in the respective period. Gains or losses on financial assets, available for sale are recognised in capital and transferred to profit and loss at derecognition at sale or impairment.

Loans and financial assets held to maturity are measured at amortised costs.

The bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and reward of ownership of the financial assets are transferred.

The acquirements and sales executed in a usual way are calculated at trade date, which is the date, when the Bank agrees to buy or sell an asset. The Bank derecognises financial obligation when its contractual obligation are discharged or cancelled or expire.

### Subsequent measurement of financial assets

The basis for measurement are the criteria from:

- Internal policy of assessment losses out of credit risk
- Measurement of financial instruments at market value.

### Measurement of financial instruments at fair value

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

64 Fair value is based on quoted price in active market at balance sheet date. If the market for a financial instrument is not active, a company establishes fair value by using a valuation technique based on discounted cash flow analysis or on the basis of price model.

The instruments available for sale are measured at fair value and the results are booked directly in equity. In case of impartial evidence for impairment, the accumulated loss booked in equity has to be recognised in profit and loss.

### Financial instruments at amortised costs

The impairment of financial instruments held to maturity is allowed if there is objective evidence for impairment.

The impairment loss is determined as the difference between the book value of the asset and net present value of future cash flows, which are discounted with initial effective interest rate. The loss is recognised in profit and loss.

### Derivative financial instruments

Derivative financial instruments comprise fx forward deals, fx swaps, interest rate swaps and foreign exchange options. The bank holds these instruments for trading purposes and in order to hedge its interest positions. They are measured at market values and contractual future value. Changes in fair value are recognised in profit and loss.

### Loans and receivables

Loans are measured at amortised costs. They are recognised as principal outstanding increased for interest accrual and fee accrual, and decreased for impairment in accordance with the internal Policy on assessment of losses from credit risk.

A bank must constantly or at least every three months assess whether there exists impartial evidence or events that happened after the initial recognition, and if that events affect the future cash flows of a financial asset or group of financial assets, which can be reliably estimated.

Important information, which indicates impairment is necessary, is as follows: failure to repay interest or principal, likelihood that the debtor will go bankrupt or undergo financial reorganisation.

The impairment of a financial asset is the difference between the book value and the present value (discounted value) of the projected cash flows with the application of the original effective interest rate. The projected cash flows from the exercise of collateral (best-quality collateral, adequate collateral and real estate and movable property collateral) are taken into consideration in the calculation of the impairment. The book value is reduced directly or by using value adjustment account. The impairment is recognised in profit or loss.

If in the next period the lower impairment determined, the previous impairment is reversed. The reversal is recognised in profit and loss.

### Cash equivalents

Cash equivalents are short term, highly liquid assets, which are almost instantly changeable into defined sums of cash, and where the risk of such a transaction is negligible.

The Bank regards as cash equivalents the following items:

- cash, balances at central bank and current accounts with other banks,
- loans to banks with original maturity up to three months
- financial investments into Government bonds of EU countries or into securities issued by central banks or ECB with the original maturity up to three months.

### Financial liabilities

Financial liabilities consist of debts to clients for deposits taken, loans taken, securities issued and other liabilities for refinancing purposes.

They are recognised in the balance at the amount received on the contractual basis and measured at amortised costs. Their book value is increased for profits and decreased for repayments.

### Provisions

A provision is recognised if as a result of a past event the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

The Bank recognises provisions for employee benefits, for off balance liabilities, or pending legal issues and for other reasons.

The Bank recognises provisions for long term employee benefits as the net present value of future compensation payments and loyalty bonus. For each and every employee the cost of retirement compensation and of all expected loyalty bonuses in remaining working years up to retirement day are calculated. For the whole VB AG group a certified Austrian actuary is calculating the future liabilities, preparing the for each group entity separately.

The Bank recognises provisions for off balance liabilities, only if the necessary conditions are fulfilled as defined in internal Policy on assessment of losses from credit risk.

### Financial and operating income and expenses

Income is recognised, if it is probable that future economic benefits will flow into company and that they can be measured reliably.

### Interest income and expense

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

Effective interest method is a calculation method for the carrying amount of financial assets or liabilities measured at amortised costs and the accrual of interest income or expense through appropriate time period.

Interest income comprise ordinary interest, penalty interest, interest accruals and deferred origination fees out of long term loans. The deferred origination fees are recognised in profit and loss in accordance with loan repayment plan.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate transaction costs, and all other sums in accordance with the contract (interest, fees, transaction costs, etc.).

### Dividends

The Bank recognises dividend income when the right to receive is established.

### Fee and commission income

The fees are charged for services in accordance with official rates defined in official tariff or on the basis of contractual obligations between the Bank and the client.

The fee expenses include the amounts paid for services performed by third persons in accordance with respective contracts.

Income and expense is recognised in profit and loss when the service is successfully completed.

### Income and expense out of financial transactions

This type of income and expense consists of realised gains or losses from financial assets not measured at fair value through profit and loss, gains or losses out of trading with debt and equity securities, and gains or losses out of derivative financial instruments measured at fair value through profit and loss.

### Other operating income and expenses

Under this position we can find rent income received for rented offices and buildings, other duties, membership fees, and other income and expense.

### Impairment

The position Impairment represents impairment of financial assets measured at amortised costs by the criteria defined in internal Policy on assessment of losses from credit risk and impairment of investment property on the basis of evaluation prepared by certified valuator.

### Taxes

Current taxes are shown as they were calculated according to the Law on corporate income tax (ZDDPO-2), using income tax rate 23% for 2007. The deferred tax is calculated for all temporary difference between value of the assets and liabilities for tax purposes and their carrying amount. The statutory tax rate for 2008 was used, which is 22%.

68

The most significant temporary differences are due to the usage of tax loss from previous years and due to provisions for employee benefits and pending legal issues.

The deferred tax asset is recognised for all deductive temporary difference, if it is probable that there will be disposable taxable profit, which will allow for the usage of deductive temporary differences.

Deferred tax calculated for the change in fair value of financial instruments available for sale, is recognised in equity.

### Segment Reporting

The segment reporting is done only on the level of the VB AG group, which reports information on types of business and geographical areas.

### Employee benefits

Employment benefits include loyalty bonus and termination benefits. Provisions for employee benefits are calculated by an independent actuary. In 2007, the amount was estimated with regard to number of employees and their fluctuation.

The following relevant parameters have been used for the calculation of employee provisions for the year 2007:

- interest rate 5%,
- pay increase 3.5%

The bank pays the employer contribution of 16.1% for pension benefits in accordance with Slovene Legislation. With the exception of legal contribution, the bank does not have any additional obligations. Contributions are recognised as cost in the period for which they are paid. They are shown in income statement under staff costs. According to Slovene legislation the employees retire after 35 to 40 working years and are under certain conditions entitled to termination benefit in the form of lump sum. Employees are entitled to loyalty bonus for every 10 year of work in the bank.

These obligations are measured as a net present value of future payments. Profit or loss arising from that is included into income statement.

### Related parties

According to Regulation on large exposures »Group of connected clients« means:

- 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 of other would be likely to encounter repayment difficulties.

Generally the related parties are all persons, who hold more than 50% share of other legal person or legal person, which is a majority shareholder of that person.

In the determination of a group of related parties, 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;

69

- 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 proprietors (e.g. sole traders), 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 consideration.

#### Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### Repurchase agreements

Temporary purchase of securities with the intention of selling them back (repurchase agreement – repo) is shown under loans to clients. According to respective contracts the bank does not take risks and does not receive benefits from the ownership of securities. Contractual relationship is similar to a collateralized loan, where securities that are also object of purchase, represent the collateral. The difference between purchase price and selling price is recognised as interest income, accrued using effective interest rate method through the contractual period.

#### Leasing

##### Bank as lessee

All leasing business, where the bank is acting as lessee, can be classified as operating lease. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. If the contract is terminated before contractual maturity, all payments to lessor due to termination are recognised as cost in the period of the termination.

##### Bank as lessor

In case of assets in financial lease the net present value of future payments is recognised as asset. The difference between gross value of asset and its net present value is recognised as unearned interest income. Income out of leasing is recognised during the time period of the contract using net investment method (before taxes), which shows constant rate of earnings.

#### Financial guarantees

Financial guarantees are contracts that require the bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Guarantees are issued by the bank to other bank, financial institutions and other clients in order to cover for debts, overdrafts and other banking business.

Financial guarantees are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The expectations are based on the past data and experience with similar business. The increase in liability arising from a financial guarantee is recognised in income statement in the position other operating expense.

#### Fiduciary business

Fiduciary assets are not risky for the bank and are booked separately from bank's own assets. In the context of fiduciary business the bank is managing loans and securities for foreign name and for foreign account. For the services connected to fiduciary business the bank is charging fees.

#### New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In

accordance with the transitional provisions the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

- IFRIC 11 IFRS 2 - Bank and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. It is not expected to have any impact on Bank's financial statements.
- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any effect on its financial statements.
- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on its financial statements.
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any impact on its financial statements.

### 3. RISK MANAGEMENT

Slovenian central bank 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 taking-up and managing risks, thus revealing their approach to the risks assumed within the scope of their operations.

Strategies for taking-up and managing risks must comprise:

- the objectives of and the general principles for taking-up 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, 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 within 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 account of 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 taking-up and assessment of its risk-bearing capacity shall be organised independently

from the organisational units of the bank that assume 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.

74

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

- risky assets (matured and unmatured loans regardless of loan term, investments in securities and long-term equity investments, discounted drafts, accounts receivable under financial leases, accounts receivable from derivative financial instruments, investment property, accrued interest, banking charges and fees, accounts receivable from guarantees, sureties and 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 and other transactions with a similar risk level, based on which a payment liability could arise for the bank).

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

In accordance with its work guidelines applying to the organisation of its credit function, execution of loan transactions and management of credit risk, as well as its internal organisational rules, the bank clearly separates the powers 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 work 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 credit risk management unit, taking account of 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 decision are not within the competence of the commercial unit.

75

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 taking-up 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 the said 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 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 on an item-by-item basis individually significant financial assets or commitments including off-balance sheet items, as specified by the central bank and in 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

in thousand EUR	Loans and advances to customers		Loans and advances to banks	
	2007	2006	2007	2006
<b>1 Loans and advances and potential liabilities with no credit risk</b>				
<b>2 Loans and advances and potential liabilities (net) exposed to credit risk</b>				
<b>a) Individually impaired:</b>				
Gross amount	4,368	3,425		
Allowance for impairment	2,062	1,622		
Carrying amount	2,306	1,803		
<b>b) Collectively impaired:</b>				
Grade B	2,499	1,992		
Grade C	1,564	1,274		
Grade D	0,435	1,325		
Grade E	4,367	4,948		
Gross amount	8,865	9,539		
Allowance for impairment	5,212	6,031		
Carrying amount	3,653	3,508		
<b>3 Not impaired (past due)</b>				
<b>a) Past due but not impaired</b>				
Gross amount	17,685	6,939		
Carrying amount	17,685	6,939		
<b>b) Past due comprises:</b>				
30-60 days	3,518	2,443		
60-90 days	0,001	0,827		
90-180 days	9,536	2,896		
180 days +	4,630	0,773		
<b>4 Neither past due nor impaired</b>				
Gross amount	503,971		50,357	26,403
Carrying amount	503,971		50,357	26,403
<b>5 Thereof restructured loans and advances</b>				
<b>Total gross amount of loans and advances</b>	<b>534,889</b>	<b>367,998</b>	<b>50,357</b>	<b>26,403</b>
<b>Total carrying of loans and advances</b>	<b>527,615</b>	<b>360,345</b>	<b>50,357</b>	<b>26,403</b>

Source: Reports RAZ 1 for 31. 12. 2006 and 31. 12. 2007 in internal reports on overdue loans and advances.

## INDIVIDUALLY IMPAIRED ASSETS BY RISK GRADE

in thousand EUR	Loans and advances to customers	
	Gross	Net
<b>31. 12. 2007</b>		
Grade 2P	1,073	0,850
Grade 3P	3,295	1,456
<b>Total</b>	<b>4,368</b>	<b>2,306</b>
<b>31. 12. 2006</b>		
Grade 2P	1,120	1,045
Grade 3P	2,305	0,758
<b>TOTAL</b>	<b>3,425</b>	<b>1,803</b>

78

## LOANS AND ADVANCES AND THEIR COLLATERAL

in thousand EUR	Loans and advances to customers		Loans and advances to banks	
	2007	2006	2007	2006
<b>Individually impaired</b>				
Property		2,212	-	-
Debt securites	-	-	-	-
Shares	-	-	-	-
Other		0,045	-	-
Collectively impaired			-	-
Property		4,360	-	-
Debt securites	-	-	-	-
Shares		0,021	-	-
Other		0,503	-	-
<b>Past due but not impaired</b>			-	-
Property		8,716	-	-
Debt securites	-	-	-	-
Shares		-	-	-
Other	-	-	-	-
<b>Neither past due nor impaired</b>			-	-
Property		154,057	-	-
Debt securites	-	-	-	-
Shares		6,286	-	-
Other		94,280	-	-
<b>Loans and advances without</b>		<b>89,865</b>	<b>50,357</b>	<b>26,403</b>
<b>TOTAL</b>			<b>50,357</b>	<b>26,403</b>

## CREDIT RISK BY SECTOR AND BY GEOGRAPHIC LOCATION

in thousand EUR	Loans and advances to customers		Loans and advances to banks	
	2007	2006	2007	2006
<b>TOTAL</b>	<b>527,615</b>	<b>360,345</b>	<b>50,357</b>	<b>26,403</b>
<b>SECTOR</b>				
Companies	340,045	242,569	-	-
Municipalities	1,219	1,647	-	-
Banks	-	-	50,357	26,403
Private sector	186,351	116,129	-	-
<b>GEOG. LOCATION</b>				
Slovenia	502,600	355,520	5,615	13,010
Austria	0,007	0,001	44,632	13,056
CEE	24,785	4,824	0,106	0,211
Other	0,223	-	0,004	0,126

79

## CREDIT RISK BY SECTOR AND BY GEOGRAPHIC LOCATION

in thousand EUR	Available for sale assets	
	2007	2006
<b>TOTAL</b>	<b>14,888</b>	<b>52,249</b>
<b>SECTOR</b>		
Companies	1,261	1,719
Municipalities	-	-
Banks	13,627	50,530
Private sector	-	-
<b>GEOG. LOCATION</b>		
Slovenia	2,660	40,391
Austria	1,422	1,502
CEE	1,905	1,079
Other	8,901	9,277

### 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., transforming short-term deposits into long-term financial assets. Liquidity is an important component of banking operations, as it compensates for 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 or potential usage of liquidity. Taking account of its specifics and level of risk taking, 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 work 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 in 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 liquidity inflows and outflows, and assessing liquidity risk by calculating the liquidity ratio;
- ensuring a stock of liquid assets that are proportionate to the liquidity risk;
- monitoring the appropriateness of the structure of financial assets on the one hand and their sources on the other hand;
- assessing liquidity risk by currencies in which it has a material exposure;
- calculating liquidity ratios and defining limits on liquidity risk exposure;
- adopting a plan to be used during possible liquidity crises.

The bank has prepared and adopted 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 of banks and savings banks". In accordance with point 2 of the said 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), with regard to residual maturity, which can be up to 30 days (category one) or 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 only has an informative nature.

## LIQUIDITY RATIOS FOR 2007 AND 2006

in thousand EUR	2007	2006
<b>As per 31. 12.</b>	<b>1.36</b>	<b>1.52</b>
Average for the period	1.52	1.33
Maximum value	1.99	1.73
Minimum value	1.26	1.11

## MATURITY OF UNDISCOUNTED CASH FLOWS (31. 12. 2007)

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

## MATURITY OF UNDISCOUNTED CASH FLOWS (31. 12. 2006)

in thousand EUR	Carrying amount	Gross nominal inflow/ outflow	On sight	Up to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years
Amounts owed to banks	317,778	429,308	75	5,224	31,526	139,889	252,594
Amounts owed to non – banks	110,961	111,311	46,020	56,446	7,772	774	298
Subordinated liabilities	16,103	23,681	0	175	524	3,571	19,412
Derivatives (credit/debit)	5	5	0	5	0	0	0
Unused credit lines	54,882	54,882	0	0	41,710	13,172	0

## BALANCE SHEET STRUCTURE ACCORDING TO MATURITIES

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>ASSETS</b>	<b>618,327</b>	<b>484,778</b>
demand	24,276	33,121
up to 1 month	46,375	23,397
from 1 to 3 months	54,441	48,142
from 3 to 12 months	136,528	82,182
from 1 to 5 years	235,464	99,616
over 5 years	121,242	198,319
<b>LIABILITIES</b>	<b>618,327</b>	<b>484,778</b>
demand	46,171	48,226
up to 1 month	165,023	58,780
from 1 to 3 months	70,724	11,967
from 3 to 12 months	12,585	30,943
from 1 to 5 years	30,324	71,337
over 5 years	293,501	263,526

## 3.3 MARKET RISK

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

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

Under the parent bank's rules and the central bank's "Regulation on the calculation of capital requirements 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 15 million EUR and never exceeds 20 million EUR.

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.

84 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

Volksbank – Ljudska banka monitors currency risk in accordance with the requirements of its majority owner, Volksbank International, 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:

- pan up-to-date 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 an 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 close, the up-to-date closing of which is not possible due to limited liquidity.

In accordance with the central bank's instructions for the calculation of the net open foreign exchange position, the bank treats assets/liabilities denominated in a foreign currency and those with a foreign exchange indexation clause equally, i.e., as foreign currency-denominated. To calculate the net open position by currency, the bank sums separately all long positions in a currency and all short positions in a currency. The higher of the two totals is the bank's net open position in that currency and thus also the basis for the calculation of capital requirements for currency risk. Currency risk (net open foreign exchange position) is monitored by the treasury unit 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 account of 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.

At the end of 2007, the bank's total exposure to currency risk was 633 thousand EUR or 1.06% of capital used to calculate the capital adequacy ratio. As at 31 December 2007, 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 capital (a limit prescribed in the central bank's "Regulation on capital and capital adequacy").

### BALANCE SHEET ACCORDING FOREIGN EXCHANGE RISK

in thousand SIT	31. 12. 2007	31. 12. 2006
<b>ASSETS</b>	<b>618,327</b>	<b>484,778</b>
in SIT	512,702	99,642
in SIT with currency clause	44,719	166,833
in foreign currencies	60,906	218,303
<b>LIABILITIES</b>	<b>618,327</b>	<b>484,778</b>
in SIT	511,897	101,579
in SIT with currency clause	134	162,587
in foreign currencies	106,296	220,613

85

After the transition to euro the positions in foreign currencies and in local currency with foreign currency clause were reduced significantly, thereby reducing foreign exchange risk. The table represents the position as per 2006 before the conversion was carried out. At the end of 2007 the total exposure to foreign exchange risk amounted 633 thousand EUR, which is 1.06% of regulatory capital for the calculation of capital adequacy. As at 31. 12. 2007 the exposure to foreign exchange risk was not taken into calculation of capital adequacy, because the Decree on capital and capital adequacy defines the limit of minimum 2% of bank's capital.

### 3.3.2 INTEREST RATE RISK

The main objective of the bank's strategy of interest 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 mismatches in maturity of the bank's assets and liabilities that are interest-sensitive, and interest rate changes (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 in the adjustment of the interest rates on different instruments with otherwise similar re-pricing characteristics (basis risk);
- the risk that arises 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 at least in its main transaction currencies (EUR, CHF), for each currency separately. This is done on a monthly basis, when a report for the asset/liability management committee is also prepared. The said committee is

responsible for controlling interest rate risk and 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 work guidelines applying to interest rate risk management.

The asset/liability management committee is responsible for controlling interest rate risk and decisions about the level of interest rate risk assumed. It approves the bank's policy that assumes predominant usage of variable-rate instruments, as well as decides on measures to be adopted in case of excess exposure to interest rate risk. Internal limits applying to the bank's exposure to interest rate risk are determined together with the parent bank. Upon their introduction, the effect of new products on interest rate risk is also verified.

### SENSITIVITY ANALYSIS TO CHANGES IN INTEREST RATES, YEARLY BASIS

in thousand EUR	100 bp parallel increase	100 bp parallel decrease
<b>2007</b>		
31. 12. 2007	2,000	-2,001
Average for the period	1,689	-1,746
Maximum for the period	3,723	-3,723
Minimum for the period	734	-734
<b>2006</b>		
31. 12. 2006	1,871	-1,871
Average for the period	2,516	-2,980
Maximum for the period	4,044	-4,792
Minimum for the period	1,421	-1,421

### EXPOSURE TO CHANGES IN INTEREST RATE AS PER 31. 12. 2007

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

88

### EXPOSURE TO CHANGES IN INTEREST RATE AS PER 31. 12. 2006

in thousand EUR	Total	On sight	Up to 3 months	from 3 months to 1 year	from 1 year to 5 years	above 5 years
Cash and balances with central bank	20,622	3,274	17,348	0	0	0
Loans to banks	26,403	1,092	25,311	0	0	0
Loans and advance to banks	360,345	1,433	11,691	333,237	11,143	2,840
Financial assets available for sale	52,249	0	37,486	9,225	2,519	3,019
Financial assets held to maturity	6,075	0	6,075	0	0	0
Loans and deposits from banks	317,798	75	31,305	279,238	7,180	0
Deposits from customers	110,941	53,806	48,396	7,814	685	239
Subordinated liabilities	16,103	103	16,000	0	0	0

### 3.4 OPERATIONAL RISK

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

- inappropriateness or incorrect implementation of the bank's internal processes;
- other inappropriate acts of the bank's employees;

- inappropriateness or incorrect functioning of the bank's internal systems;
- external events or acts.

Operational risk also includes:

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

89

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, it analyses the causes of actual material losses arising from operational risk. It also uses, at least once a year, risk mapping to identify and assess material potential operational risk. Definition of the term "major losses arising from operational risk" is laid down in the work 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 adopted to manage operational risk. Such measures are then implemented by the risk-controlling unit.

### 3.5 FAIR VALUE OF ASSETS AND LIABILITIES

	31. 12. 2007		31. 12. 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances to banks	50,357	50,357	26,403	26,403
Loans and advances to banks	527,615	527,054	360,345	360,985
Short-term loans	123,346	123,346	67,741	67,741
Long-term loans	404,269	403,708	292,604	293,244
Financial assets available-for-sale	14,888	14,888	52,249	52,249
Financial assets held-or-sale	6,068	6,068	6,075	6,075
Deposits taken from banks	116,186	116,186	7,273	7,273
Loans from banks	257,807	257,807	310,505	310,505
Deposits from clients	174,184	174,184	110,941	110,941
Loans from clients	0	0	20	20

In the year 2006 the fair value of long-term loans was higher than their carrying amount, whereas in 2007 the situation was the opposite. The reason for that is the increase of interest rates on the market. For example, the 3-month EURIBOR was 4.77% at the end of 2007, which is more than 1 percentage point higher than at the end of 2006, when its value was 3.72%. Consequently, the fair value of loans with fixed interest rate approved before 1. 1. 2007 decreased, which shifted the fair value of long-term loans at the end of 2007 below their carrying amount.

### 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 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 possible time.

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 PER 31. 12. 2007 AND 31. 12. 2006

in thousand EUR	2007	2006
<b>CORE CAPITAL (TIER I)</b>	<b>42.313</b>	<b>24.861</b>
Paid-in capital	31,377	22,572
Capital reserves	19,011	12,824
Deductions from core capital		
Reserves and retained earnings / loss carried forward	-2,125	-4,879
Intangibles	-435	-489
Difference between recognised impairment and provisions according to IFRS and according to Regulation on assesment of losses from credit risks of banks and saving banks (from the RAZ-1 report)*	-5,297	-5,166
Revaluation reserves out available-for-sale assets	-218	0
<b>BANK'S ADDITIONAL CAPITAL (TIER II)</b>	<b>18,800</b>	<b>16,000</b>
Hybrid instrumens and cumulative preference share	6,000	6,000
Subordinated loan	12,800	10,000
<b>DEDUCTION FROM TIER I AND TIER II CAPITAL</b>	<b>-1,247</b>	<b>-411</b>
Investments to other credit or financial instititons (>10%)	-1,247	-411
<b>BANK'S OWN FUNDS (for the purpose of solvency)</b>	<b>59.866</b>	<b>40.450</b>
<b>RISK WEIGHTED ASSETS AND OFF BALANCE SHEET POSITIONS</b>		
<b>RISK WEIGHTED ASSETS – balance sheet</b>	<b>502,474</b>	<b>318,307</b>
balance positions weighted with 0% - unweighted value	70,250	131,426
<b>weighted with 0%</b>	<b>0</b>	<b>0</b>
balance positions weighted with 20% - unweighted value	57,002	43,808
<b>weighted with 20%</b>	<b>11,400</b>	<b>8,762</b>
balance positions weighted with 100% - unweighted value	491,074	309,545
<b>weighted with 100%</b>	<b>491,074</b>	<b>309,545</b>
<b>Risk weighted of balance sheet positions</b>	<b>30,155</b>	<b>16,869</b>
Off balance sheet positions - unweighted	83,190	68,352
<b>TOTAL RISK WEIGHTED ASSETS</b>	<b>532,629</b>	<b>335,176</b>
<b>CAPITAL ADEQUACY</b>		
Capital demand	42.613	26.814
<b>SOLVENCY RATIO (%)</b>	<b>11,24%</b>	<b>12,07%</b>

The difference between recognised impairment and provisions according to IFRS and according to Regulation on assessment of losses, represents the difference between impairment and provisions, which the bank recognised in accordance with International Accounting Standards and those impairment and provisions, which were prescribed by Banka Slovenije only for capital adequacy reporting.

Deduction from Tier I and Tier II capital consists of investment into other credit or financial institutions, which individually exceed 10% of the share capital of other credit or financial institution, in particular the investment into VBS Leasing d.o.o.

#### 4. CASH AND BALANCES WITH THE CENTRAL BANK

in thousand EUR	31. 12. 2007		31. 12. 2006	
	in EUR	in foreign currencies	in EUR	in foreign currencies
Cash in hand	2,431	550	2,375	280
Deposits with central bank	4,249	0	17,967	0
<b>TOTAL</b>	<b>6,680</b>	<b>550</b>	<b>20,342</b>	<b>280</b>
<b>Total (in EUR and in foreign currencies)</b>	<b>7,231</b>		<b>20,622</b>	

The amount of deposits with the central bank consists of cash on settlement account with the central bank in amount of 3,895 thousand EUR and other deposits with the central bank in amount of 355 thousand EUR.

The Bank is fulfilling the obligatory reserve requirement by assuring an adequate amount of deposited cash on the settlement account with the central bank. The average liability for the obligatory reserve amounted to 3,239,309.50 EUR in 2007. In the past year, the Bank regularly fulfilled and exceeded this requirement.

#### 5. FINANCIAL ASSETS HELD FOR TRADING

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>FINANCIAL ASSETS HELD FOR TRADING</b>	<b>16</b>	<b>44</b>
Derivatives	16	44

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

##### 6.1 EQUITY INSTRUMENTS CARRIED AT COST – NON MARKET SECURITIES

in thousand EUR	2007	2006
VBS Leasing d.o.o. Ljubljana	1,246	408
Bankart d.o.o. Ljubljana	11	11
S.W.I.F.T. Belgium	3	3
<b>TOTAL</b>	<b>1,261</b>	<b>422</b>

In 2007, the Bank paid in additional capital of 838 thousand EUR in the company VBS Leasing d.o.o. The percentage of ownership remained the same. In 2006, the Bank officially registered additional capital of 73 thousand EUR and transferred the amount from receivables for paid but unregistered capital to long-term investment in the capital of other clients. The percentage of ownership remained the same.

##### 6.2 DEBT SECURITIES AVAILABLE-FOR-SALE

According to currency

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>In foreign currencies</b>	<b>2,033</b>	<b>2,313</b>
Bonds issued by banks	2,033	2,313
<b>In EUR</b>	<b>11,594</b>	<b>49,514</b>
Bonds issued by Republic of Slovenia	0	1,090
Bonds issued by local banks	1,250	1,286
Bonds issued by foreign banks	8,790	8,084
ÖVAG (VB AG)	1,402	1,498
Other long term bonds	152	167
treasury bills of the Bank of Slovenia	0	37,389
<b>Total short-term and long-term</b>	<b>13,627</b>	<b>51,827</b>

Slovenia stopped issuing treasury bills, which is the main reason that bank's portfolio decreased.

#### According to securities market listing

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Listed on securities market</b>	<b>13,627</b>	<b>14,438</b>
Bonds	13,475	14,271
Other	152	167
<b>Not listed on securities market</b>	<b>0</b>	<b>37,389</b>
Treasury bills of the Bank of Slovenia	0	37,389
<b>TOTAL</b>	<b>13,627</b>	<b>51,827</b>

#### Fair value

in thousand EUR	2007	2006	2005
Purchase value	13,806	51,548	92,530
Interest (receivables, accruals)	101	263	485
Valuation to fair value	-279	17	68
<b>Carrying amount</b>	<b>13,627</b>	<b>51,827</b>	<b>93,083</b>

## 7. LOANS

in thousand EUR	31. 12. 2007	31. 12. 2006
Loans to banks	50,357	26,403
Loans to non-banks	527,615	360,345
<b>TOTAL</b>	<b>577,973</b>	<b>386,748</b>

## 7.1 LOANS TO BANKS

#### Maturity analysis

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>On demand</b>	<b>41,627</b>	<b>3,414</b>
In EUR	40,098	2,503
In foreign currencies	1,529	911
<b>Short-term</b>	<b>6,730</b>	<b>18,767</b>
In EUR	3,115	18,767
In foreign currencies	3,616	0
<b>Long-term</b>	<b>2,000</b>	<b>4,223</b>
In EUR	2,000	4,223
<b>Total to banks</b>	<b>50,357</b>	<b>26,403</b>

#### Geographical analysis

in thousand EUR	31. 12. 2007	31. 12. 2006
Slovenia	5,616	13,092
Other countries	44,742	13,311
<b>TOTAL</b>	<b>50,357</b>	<b>26,403</b>

#### Analysis of loans to banks according to association with the bank

in thousand EUR	31. 12. 2007	31. 12. 2006
Banks in group	44,679	13,105
Other banks	5,678	13,298
<b>TOTAL</b>	<b>50,357</b>	<b>26,403</b>

The major part of the position loans to banks comprises funds deposited on the current accounts and time deposits placed with the bank VB AG, which owns 51% shares of parent bank VBI AG, and funds deposited on the current accounts and time deposits placed with the associated banks.

## 7.2 LOANS TO NON-BANKING CLIENTS

### Breakdown by borrower sector

in thousand EUR	31. 12. 2007		31. 12. 2006	
	Short-term	Long-term	Short-term	Long-term
<b>IN EUR</b>	<b>121,175</b>	<b>360,822</b>	<b>64,470</b>	<b>268,058</b>
non-financial companies	74,982	175,384	54,358	141,032
the state	32	1,008	10	989
other financial organisations	8,548	25,084	5,380	30,557
households	31,954	142,440	4,722	94,241
non-profit providers of services to households	0	1,292	0	1,239
foreign persons	5,660	15,613	0	0
<b>In foreign currency</b>	<b>3,899</b>	<b>49,194</b>	<b>5,482</b>	<b>30,025</b>
non-financial companies	3,899	35,863	5,050	9,477
the state	0	615	0	687
other financial organisations	0	0	0	0
households	0	12,716	130	18,108
non-profit providers of services to households	0	0	0	0
foreign persons	0	0	302	1,752
<b>allowance for impairment</b>	<b>-1,728</b>	<b>-5,747</b>	<b>-2,268</b>	<b>-5,422</b>
<b>TOTAL</b>	<b>123,346</b>	<b>404,269</b>	<b>67,684</b>	<b>292,660</b>
<b>Total short-term and long-term</b>	<b>527,615</b>		<b>360,345</b>	

### Breakdown by borrower sector

in thousand EUR	31. 12. 2007	31. 12. 2006
- non-financial companies	290,127	190,667
- the state	1,655	1,687
- other financial organisations	33,632	35,940
- households	187,110	136,446
- non-profit providers of services to househ.	1,292	1,239
- foreign persons	21,274	2,054
Adjustments	-7,475	-7,690
<b>TOTAL</b>	<b>527,615</b>	<b>360,345</b>

### First-class securities

First-class securities were as follows:

in thousand EUR	A	B	C	D	E	P	Skupaj
Bank depoEUR	52,009	0	0	0	0	0	52,009
Securities from domestic banks	914	0	0	0	0	0	914
The government securities	6,132	0	0	0	0	0	6,132
Securities issued by central bank	0	0	0	0	0	0	0
Guarantees and other security	0	0	0	0	0	0	0
Guarantees from domestic banks	0	0	0	0	0	0	0
Guarantees from foreign banks	5,267	0	0	0	0	0	5,267
<b>TOTAL</b>	<b>64,322</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>64,322</b>

### Appropriate insurance of loans - mortgage

The amount of 267,902 thousand EUR of the Bank's total gross loan portfolio is insured with mortgages.

### Loan analysis according to association with the Bank

in thousand EUR	31. 12. 2007	31. 12. 2006
Clients in the Group	0	0
Other clients	527,615	360,345
<b>TOTAL</b>	<b>527,615</b>	<b>360,345</b>

## 7.3 ANALYSIS AND MOVEMENTS OF ACCORDING TO TYPES OF RECEIVABLES AND LOANS

The position loans and the subposition loans to non-banks contains the impairment of the corresponding financial instrument. Loans to banks were not impaired, because the Bank placed its assets only to the best rated banks. This topic is regulated in the frame of internal rulebooks and supervisions by VBI AG and bank VB AG.

Movements in allowance for impairment in the year 2007:

in thousand EUR	Loans to customers	Other	Total
<b>Balance as at January 1st</b>	<b>7,690</b>	<b>257</b>	<b>7,947</b>
Share in total claims (%)	1.3	15.3	
Allocation during the year	4,603	87	4,690
Release during the year	-4,818	-66	-4,884
<b>Balance as at December 31st</b>	<b>7,475</b>	<b>278</b>	<b>7,753</b>
Share in total claims (%)	1.2	16.5	

Movements in allowance for impairment in the year 2006:

in thousand EUR	Loans to customers	Other	Total
<b>Balance as at January 1st</b>	<b>7,253</b>	<b>243</b>	<b>7,496</b>
Share in total claims (%)	2.7	21.5	
Allocation during the year	2,409	104	2,513
Release during the year	-1,971	-90	-2,062
<b>Balance as at December 31st</b>	<b>7,690</b>	<b>257</b>	<b>7,947</b>
Share in total claims (%)	2.1	2.9	

100

## 8. HELD-TO-MATURITY INVESTMENTS

The Bank holds in this category only debt securities. The Bank does not classify loans and receivables as held to maturity.

### 8.1 DEBT SECURITIES HELD-TO-MATURITY

According to foreign currency and maturity

in thousand EUR	31. 12. 2007		31. 12. 2006	
	Kratkoroční	Dolgoroční	Kratkoroční	Dolgoroční
<b>In EUR</b>	<b>0</b>	<b>6,068</b>	<b>0</b>	<b>6,075</b>
Bonds	0	6,068	0	6,075
<b>TOTAL</b>	<b>0</b>	<b>6,068</b>	<b>0</b>	<b>6,075</b>
<b>Together short-term and long- term</b>	<b>6,068</b>		<b>6,075</b>	

The Bank holds two debt securities with face value 3 million EUR each. The first matures on 2. 2. 2018 and the second 24. 2. 2012. Both are part of the consolidation within VB AG group.

According to securities market listing

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Listed on securities market</b>	<b>6,068</b>	<b>6,075</b>
Bonds	6,068	6,075
<b>Not listed on securities market</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>6,068</b>	<b>6,075</b>

## 9. TANGIBLE ASSETS AND INTANGIBLE ASSETS

Movement in tangible assets and intangible assets in 2007

in thousand EUR	Land and buildings	Equipment	Assets under construction	Total Tangible assets	Intangible assets	Intangible assets in preparation	Total Intangible assets	Grand Total
<b>Purchase value</b>								
Balance 01. 01. 2007	7,221	3,378	1	10,600	1,226	193	1,419	12,019
Additions	8	1,054	1,138	2,200	220	70	290	2,490
Disposals	-17	-151	-1,053	-1,221	0	-216	-216	-1,437
<b>Balance 31. 12. 2007</b>	<b>7,212</b>	<b>4,281</b>	<b>86</b>	<b>11,579</b>	<b>1,446</b>	<b>47</b>	<b>1,493</b>	<b>13,072</b>
<b>Value adjustment</b>								
	835	2,093	0	2,928	930	0	930	3,858
Accumulated Depreciation	162	418	0	580	128	0	128	708
Sales	12	7	0	19	0	0	0	19
Disposals	-15	-151	0	-166	0	0	0	-166
<b>Balance 31. 12. 2007</b>	<b>994</b>	<b>2,367</b>	<b>0</b>	<b>3,361</b>	<b>1,058</b>	<b>0</b>	<b>1,058</b>	<b>4,419</b>
<b>Carrying amount</b>								
<b>31. 12. 2006</b>	<b>6,386</b>	<b>1,285</b>	<b>1</b>	<b>7,672</b>	<b>296</b>	<b>193</b>	<b>489</b>	<b>8,161</b>
<b>31. 12. 2007</b>	<b>6,218</b>	<b>1,914</b>	<b>86</b>	<b>8,218</b>	<b>388</b>	<b>47</b>	<b>435</b>	<b>8,653</b>

101

At the end of 2007 the bank activated intangible assets in preparation for investment intosoftware for Basel II project, because it is going to take into account the new capital accord for reporting of capital adequacy.

#### Movement in tangible assets and intangible assets in 2006

in thousand EUR	Land and buildings	Equipment	Assets under construction	Total Tangible assets	Intangible assets	Intangible assets in preparation	Total Intangible assets	Grand Total
<b>Purchase value</b>								
Balance 01. 01. 2006	7.190	2.865	180	43	1.141	0	5	0
Additions	31	594	533	5	85	193	1	0
Disposals	0	-81	-711	-3	0	0	0	0
<b>Balance 31. 12. 2006</b>	<b>7.221</b>	<b>3.378</b>	<b>1</b>	<b>10.600</b>	<b>1.226</b>	<b>193</b>	<b>1.419</b>	<b>12.020</b>
<b>Value adjustment</b>								
Balance 01. 01. 2006	674	1.716	0	10	708	0	3	0
Accumulated Depreciation	161	418	0	2	222	0	1	0
Sales	0	0	0	0	0	0	0	0
Disposals	0	-41	0	0	0	0	0	0
<b>Balance 31. 12. 2006</b>	<b>835</b>	<b>2.093</b>	<b>0</b>	<b>2.928</b>	<b>930</b>	<b>0</b>	<b>930</b>	<b>3.858</b>
<b>Carrying amount</b>								
<b>31. 12. 2005</b>	<b>6.516</b>	<b>1.149</b>	<b>180</b>	<b>33</b>	<b>433</b>	<b>0</b>	<b>2</b>	<b>0</b>
<b>31. 12. 2006</b>	<b>6.386</b>	<b>1.285</b>	<b>1</b>	<b>7.672</b>	<b>296</b>	<b>193</b>	<b>489</b>	<b>8.161</b>

## 10. INVESTMENT PROPERTY

In 2006 the Bank successfully sold the only item of investment property, which was initially recognised at 409 thousand EUR. At derecognition the Bank realised 159 thousand EUR of net profit. By buying and selling the Bank sensfully took advantage of the opportunity. This type of business is not a part of its long-term strategy.

## 11. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

#### Long-term investment in the Group clients' capital as at 31 Dec 2007

in thousand EUR	Amount of investment	% participation	% voting rights	Amount of capital	Profit of the year
Privatinvest d.o.o. Ljubljana	1,614	100	100	2,370	-0.5
<b>TOTAL</b>	<b>1,614</b>				

#### Long-term investments in the capital of other clients in the Group as at 31 Dec 2006

in thousand EUR	Amount of investment	% participation	% voting rights	Amount of capital	Profit of the year
Privatinvest d.o.o. Ljubljana	1,614	100	100	2,370	-0.5
<b>TOTAL</b>	<b>1,614</b>				

The investment in Privatinvest d.o.o. is accounted at costs.

## 12. TAX ASSETS

in thousand EUR	31. 12. 2007	31. 12. 2006
TAX ASSETS	262	541
Current tax assets	1	0
Deferred tax assets	261	541

Deferred tax assets are a result of temporary time differences out of unrecognised provisions for employee benefits, unused losses from previous years and not recognised impairment and provisions. In comparison to 2007 deferred tax assets are lower, because tax loss was used in 2007. For calculation of deferred taxes, bank used 22% as rate which is valid for the year 2008.

#### MOVEMENT OF DEFERRED TAXES IN 2007 AND 2006

in thousand EUR	Net value of deferred taxes as at 1. 1.	Through income statement	Through revaluation reserve in capital	Net value of deferred taxes as at 31. 12.
2007	5	-278	65	-207
2006	407	-415	13	5

Net value of deferred taxes equals the sum of deferred tax assets and deferred tax liabilities, which means that deferred tax liabilities were subtracted from deferred tax assets.

#### DEFERRED TAXES FROM VALUATION OF SECURITIES

in thousand EUR	2007	2006	2005
Net value of deferred tax as per 31. 12.	61	-4	-17
Valuation to fair value	-279	17	68
<b>Revaluation reserve as per 31. 12.</b>	<b>-218</b>	<b>13</b>	<b>51</b>
<b>Deferred tax – changes in capital</b>	<b>65</b>	<b>-13</b>	<b>17</b>

#### 13. OTHER ASSETS

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Fees and commissions due</b>	<b>64</b>	<b>154</b>
<b>Trade receivables</b>	<b>88</b>	<b>54</b>
<b>Receivables for advances made in EUR</b>	<b>11</b>	<b>8</b>
<b>Cheques</b>	<b>0</b>	<b>3</b>
<b>Inventories of material</b>	<b>14</b>	<b>57</b>
<b>Other receivables</b>	<b>1,352</b>	<b>8,370</b>
In EUR	1,459	6,079
provisions	-277	-257
In foreign currency	170	2,548
<b>Deferred expenses and accrued income</b>	<b>94</b>	<b>70</b>
<b>TOTAL</b>	<b>1,622</b>	<b>8,716</b>

Other receivables in foreign currency represent foreign exchange sales to companies and banks, which are recognised in balance at trade date. The Bank always concludes closed deals, so the amount in the similar value can be found among other liabilities in foreign currency.

#### 14. FINANCIAL LIABILITIES HELD FOR TRADING

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>FINANCIAL LIABILITIES HELD FOR TRADING</b>	<b>0</b>	<b>37</b>
Derivatives	0	37

At the end of the year 2006 the fair value of SWAP amounted to 37 thousand EUR.

#### 15. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

##### 15.1 DEPOSITS FROM BANKS

Analysis according to type, currency and maturity of deposits from banks

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Demand deposits</b>	<b>72,090</b>	<b>246</b>
in EUR	58,229	240
in foreign currency	13,860	6
<b>Deposits with agreed maturity</b>	<b>44,096</b>	<b>7,027</b>
<b>Short-term</b>	<b>41,968</b>	<b>4,970</b>
in EUR	41,968	4,970
in foreign currency		
<b>Long-term</b>	<b>2,128</b>	<b>2,057</b>
in EUR	2,128	2,057
in foreign currency		
<b>TOTAL</b>	<b>116,186</b>	<b>7,273</b>

Analysis of deposits from banks according to association with the Bank

in thousand EUR	31. 12. 2007	31. 12. 2006
Clients in the Group	74,032	5,362
Other clients	42,154	1,911
<b>TOTAL</b>	<b>116,186</b>	<b>7,273</b>

Liabilities towards banks in the Group represent debts towards the VB AG bank in the amount of 73,180 thousand EUR and their subsidiaries and associated banks in the amount of 852 thousand EUR.

## 15.2 DEPOSITS FROM NON-BANKS

### Analysis according to type, currency and maturity

in thousand EUR	31. 12. 2007			31. 12. 2006		
	EUR	Foreign currency	Total	EUR	Foreign currency	Total
<b>Demand depoEURs</b>	<b>46,676</b>	<b>2,035</b>	<b>48,711</b>	<b>45,288</b>	<b>1,877</b>	<b>47,165</b>
Corporate	22,442	303	22,745	21,839	713	22,552
Households	22,256	1,639	23,895	21,741	1,043	22,784
Public sector (the state)	0	0	0	0	0	0
Non-profitable service providers	497	0	497	470	5	475
Other financial institutions	470	0	470	207	0	207
Non-residents	1,011	93	1,104	1,031	116	1,147
<b>DepoEURs with agreed maturities</b>	<b>122,744</b>	<b>2,729</b>	<b>125,473</b>	<b>61,650</b>	<b>2,126</b>	<b>63,776</b>
<b>Short-term depoEURs</b>	<b>116,962</b>	<b>2,640</b>	<b>119,602</b>	<b>57,759</b>	<b>1,940</b>	<b>59,699</b>
Corporate	40,162	794	40,956	9,768	598	10,366
Households	33,838	1,521	35,359	29,889	1,316	31,205
Public sector	9,839	0	9,839	6,540	0	6,540
Non-profitable service providers	449	0	449	410	0	410
Other financial institutions	32,213	301	32,514	10,811	0	10,811
Non-residents	461	24	485	341	26	367
<b>Long-term depoEURs</b>	<b>5,782</b>	<b>89</b>	<b>5,871</b>	<b>3,891</b>	<b>186</b>	<b>4,077</b>
Corporate	471	27	498	349	0	349
Households	4,812	49	4,861	3,056	156	3,212
Public sector	80	0	80	80	0	80
Non-profitable service providers	0	0	0	0	0	0
Other financial institutions	143	0	143	229	30	259
Non-residents	276	13	289	177	0	177
<b>TOTAL</b>	<b>169,420</b>	<b>4,764</b>	<b>174,184</b>	<b>106,938</b>	<b>4,003</b>	<b>110,941</b>

### Deposits from non-banks according to connection with the bank

in thousand EUR	31. 12. 2007	31. 12. 2006
Clients in group	851	203
Other clients	173,333	110,738
<b>TOTAL</b>	<b>174,184</b>	<b>110,941</b>

## 15.3 LOANS

### Analysis according to type, currency and maturity

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Loans</b>	<b>0</b>	<b>0</b>
<b>Short – term loans from banks</b>	<b>257,807</b>	<b>310,505</b>
<b>Long – term loans from banks</b>	<b>170,479</b>	<b>298,066</b>
in EUR	87,328	12,439
in foreign currency	0	20
<b>Loans from non - bank clients</b>	<b>257,807</b>	<b>310,525</b>
<b>TOTAL</b>	<b>257,807</b>	<b>310,505</b>

### Loans according to connection with the bank

in thousand EUR	31. 12. 2007	31. 12. 2006
Clients in group	238,694	278,711
Other clients	19,113	31,813
<b>TOTAL</b>	<b>257,807</b>	<b>310,524</b>

## 15.4 DEBT INSTRUMENTS

The bank did not issue debt instruments, measured at amortised costs.

## 15.5 SUBORDINATED LIABILITIES

### Structure of subordinated liabilities

in thousand EUR	31. 12. 2007	31. 12. 2006
Subordinated liabilities towards foreign persons in EUR	18,928	16,103
<b>TOTAL</b>	<b>18,928</b>	<b>16,103</b>

In the year 2007 the subordinated liabilities had resulted 578 thousand EUR of interest expense.

## 16. REZERVATIONS

### Structure of long-term provisions

in thousand EUR	31. 12. 2007	31. 12. 2006
Restructuring	0	0
Pending legal issues	78	79
Pensions and other post retirement benefit obligations	240	193
Credit commitments and guarantees	18	7
Contractual engagements	0	0
Other provisions	26	0
<b>TOTAL</b>	<b>362</b>	<b>279</b>

### Changes in long-term provisions

Changes in long-term provisions in 2007

in thousand EUR	Credit commitments and guarantees	Pensions and other post retirement benefit obligations	Other provisions	Pending legal issues	Total
<b>Balance as at 1 January</b>	<b>7</b>	<b>193</b>	<b>0</b>	<b>79</b>	<b>279</b>
Increases	179	63	26	40	308
Decreases	-168	-16	0	-41	-225
<b>Balance as at 31 December</b>	<b>18</b>	<b>240</b>	<b>26</b>	<b>78</b>	<b>362</b>

Changes in long-term provisions in 2006

in thousand EUR	Credit commitments and guarantees	Pensions and other post retirement benefit obligations	Other provisions	Pending legal issues	Total
<b>Balance as at 1 January</b>	<b>5</b>	<b>156</b>	<b>174</b>	<b>4</b>	<b>339</b>
Increases	223	51	0	102	376
Decreases	-221	-14	-174	-27	-436
<b>Balance as at 31 December</b>	<b>7</b>	<b>193</b>	<b>0</b>	<b>79</b>	<b>279</b>

## 17. TAX LIABILITIES

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>TAX LIABILITIES</b>	<b>468</b>	<b>536</b>
Current tax liabilities	0	0
Deferred tax liabilities	468	536

## 18. OTHER LIABILITIES

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Fees and commissions due</b>	<b>5</b>	<b>0</b>
<b>Other liabilities</b>	<b>1,935</b>	<b>8,398</b>
in EUR	1,695	3,550
liabilities to suppliers	650	302
accrued salaries	348	308
taxes and contributions payable	114	108
liabilities for underpayment of taxes	0	0
liabilities for unallocated inflows of non-resident clients	0	0
other liabilities	527	2,804
in foreign currency	240	4,848
liabilities for unexecuted payments abroad	0	0
other liabilities in foreign currency	240	4,848
<b>Accrued expenses and deferred income</b>	<b>404</b>	<b>151</b>
<b>TOTAL</b>	<b>2,344</b>	<b>8,549</b>

Other liabilities in foreign currency represent foreign exchange sales to companies and banks, which are realised in two working day. In accordance with the accounting policies they are recognised in balance at trade date. The Bank always concludes closed deals, so the amount in the similar value can be found among other assets in foreign currency.

## 19. CAPITAL

The subscribed capital increased in 2007. At the end of 2007 it consisted of 7,524,542 ordinary shares with nominal value 4.17 EUR. At the 26rd regular Assembly of Volksbank – Ljudska banka d.d., on September 26<sup>th</sup> 2007 a resolution on issue of 2,115,447 ordinary nominal shares in the nominal value of 4.17 EUR for each paid in share was adopted.

Capital reserves represent mostly the paid-up surplus capital, the rest originates from former general equity capital revaluation adjustment.

Revaluation reserves amounted to -218 thousand EUR on December 31<sup>st</sup> 2007. They consist only of revaluation reserve for available – for-sale financial assets, which is a result of fair value valuation that is recognised in equity according to IAS 39. On December 31<sup>st</sup> 2006 the position amounted to 13 thousand EUR and decreased during the year 2007 due to falling prices of securities and unfavourable movement of interest rates. Revaluation reserves are negative, which represents a deduction in calculation of bank's capital adequacy.

**TABLE »BALANCE-SHEET RESULT« (distributable profit) for business year 2007**

Net result from the current year	2,748
Retained earnings / Loss carried forward	-4,873
<b>= balance-sheet loss for disposing on assembly</b>	<b>-2,125</b>
for forwarding in next year	-2,125

**TABLE »BALANCE-SHEET RESULT« (distributable profit) for business year 2006**

Net result from the current year	707
Retained earnings / Loss carried forward	-5,580
<b>= balance-sheet loss for disposing on assembly</b>	<b>-4,873</b>
for forwarding in next year	-4,873

Book share value, calculated from the gross capital, per December 31<sup>st</sup> 2007 is 6.39 EUR which is 0.74 EUR more than on December 31<sup>st</sup> 2006.

Profit per share was 0.37 EUR in 2007 and 0.13 EUR in 2006.

in EUR	2007	2006
Net profit for the financial year	2,748,170	707,576
Number of shares	7,524,542	5,409,095
Basic earnings per share	0.37	0.13
Diluted earnings per share	0.37	0.13

Basic earning per share and diluted earning per share are the same, because the Bank has no 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 had to reach at least 10 percent of core capital. In accordance with statute bank's assembly decides on the use of balance sheet profit. Doing that, it is not bound to proposals of management and supervisory board, nevertheless it has to consider the accepted annual report. The decree about usage of balance sheet profit has to contain the following information:

- the amount of balance sheet profit
- the amount of profit, distributed to shareholders
- the amount of profit transferred to other reserves from profit
- the amount of profit, about the usage of which it will be decided in coming business years (retained earnings)
- the amount of profit, which is used for other purposes that are defined in statute.

The decree on usage of balance sheet profit does not change the accepted annual report. Assembly cannot decide on issues concerning management of bank's business, except if demanded that way by management board. Other reserves from profit were built up in previous years from the profit of that years and from retained earnings and they cannot be used for payment of dividends. Other reserves from profit remained unchanged and amount to 6 thousand EUR.

## 20. TREASURY SHARES

The Bank does not hold any treasury shares.

## 21. OFF-BALANCE SHEET ITEMS

in thousand EUR	2007	2006
Performance guarantees	8,179	6,765
short-term	3,385	2,332
long-term	4,794	4,434
Financial guarantees	14,803	4,990
short-term	2,651	3,293
long-term	12,152	1,697
Bank of Slovenia Bills pledged at Bank of Slovenia	16,668	9,865
Letters of credit	917	1,652
Commitments	90,352	54,974
Derivative instruments	198	5,471
<b>TOTAL</b>	<b>131,118</b>	<b>83,717</b>
<b>Positions involving risk – in Total</b>	<b>131,118</b>	<b>83,717</b>
Depositories and other records of securities	161	9,017
Records of written-off assets	114	116
Other off-balance sheet commitments	1,727,635	773,486
<b>Risk free positions – in Total</b>	<b>1,727,911</b>	<b>782,619</b>
<b>Total OFF-balance sheet items</b>	<b>1,859,029</b>	<b>866,336</b>

In addition to off-balance-sheet items involving risk amounting to 131,118 thousand EUR, the bank had also risk free off-balance items in amount of 1,727,911 thousand EUR at 31<sup>st</sup> December 2007. All derivatives were classified as held for trading.

## 22. NET INTEREST INCOME AND SIMILAR INCOME

### By type of interest

in thousand EUR	2007	2006
<b>Net interest income</b>	<b>12,060</b>	<b>8,736</b>
<b>Income</b>	<b>29,342</b>	<b>20,994</b>
Deposits at central bank	135	25
Financial assets held for trading	75	10
Financial assets designated at fair value through profit or loss	0	0
Derivatives - hedge accounting	0	0
Available-for-sale financial assets	699	3,328
Loans and receivables (including finance leases)	28,281	17,528
Held-to-maturity investments	88	0
Interest from other claims	64	103
<b>Expenses</b>	<b>-17,282</b>	<b>-12,258</b>
Interest paid to banks	0	0
Financial liabilities held for trading	-72	-11
Financial liabilities designated at fair value through profit or loss	0	0
Derivatives - hedge accounting	0	0
Financial liabilities measured at amortised cost	-17,210	-12,241
Other liabilities (including finance leases)	0	-6

### Type of interest income and expense

in thousand EUR	2007		2006	
	Income	Expense	Income	Expense
Regular	27,640	17,282	19,664	12,258
Default	447	0	363	0
Interest similar – accrued fees	1,254	0	967	0
<b>TOTAL</b>	<b>29,342</b>	<b>17,282</b>	<b>20,993</b>	<b>12,258</b>

114

### 23. DIVIDEND INCOME

There were no dividends in year 2007 and 2006.

### 24. NET FEE AND COMMISSION INCOME

in thousand EUR	2007	2006
<b>INCOME</b>	<b>2,663</b>	<b>2,490</b>
From issuing guarantees	87	119
From domestic payments	563	446
From international payments	306	564
From intermediary and commission deals	264	279
From securities business	209	0
From credit operations	52	38
For providing administrative services	1,183	1,043
<b>EXPENSES</b>	<b>-958</b>	<b>-319</b>
For domestic banking services	-120	-127
For foreign banking services	-793	-108
For intermediary and commission deals	-16	-28
For Brokerage services	-1	0
For payment transactions	-28	-56
<b>NET COMMISSIONS AND FEES</b>	<b>1,705</b>	<b>2,171</b>

The strong growth of fee and commission income was mainly a result of the rise in fee income from derivatives sale which are new for our bank. In 2007 we had two tranches (Garant Top 20 and Garant Top 20 II) and get 209 thousand EUR of fees.

Because of the liquidity needs, expenses for foreign banking services increased highly.

### 25. REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS</b>	<b>11</b>	<b>-49</b>
<b>REALISED GAINS</b>	<b>56</b>	<b>3</b>
Available-for-sale financial assets	33	3
Loans and receivables (including finance leases)	23	0
<b>REALISED LOSSES</b>	<b>-45</b>	<b>-52</b>
Available-for-sale financial assets	-3	-1
Loans and receivables (including finance leases)	-42	-50

115

In the year 2007, the largest part of realised gains from available-for-sale financial assets was generated by the sale of domestic bonds (33 thousand EUR) and revenues from written off loans (23 thousand EUR)

## 26. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING (NET)

in thousand EUR	2007	2006
<b>Gains and losses on financial assets and liabilities held for trading (net)</b>	<b>940</b>	<b>502</b>
<b>Gains and losses on trading with stocks and loans</b>	<b>302</b>	<b>0</b>
<b>Gains and losses on Foreign exchange trading</b>	<b>476</b>	<b>582</b>
Companies	364	543
Private sector	112	39
<b>Gains and losses on Derivatives</b>	<b>161</b>	<b>-80</b>
Forward	6	41
Gains	9	43
Losses	-3	-3
Swap	155	38
Gains	1,635	791
Losses	-1,480	-753
Options	0	-159

## 27. EXCHANGE DIFFERENCES

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Exchange differences</b>	<b>-110</b>	<b>-43</b>
Gains	7,385	4,753
Losses	-7,495	-4,796

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

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>Gains and losses on derecognition of assets</b>	<b>9</b>	<b>162</b>
Gains	12	162
Losses	-3	0

The result decreased significantly, because there was no sale of real estate in 2007 as it was in previous year.

116

## 29. OTHER OPERATING NET INCOME

in thousand EUR	2007	2006
<b>Other operating net income</b>	<b>153</b>	<b>130</b>
<b>Income</b>	<b>237</b>	<b>215</b>
Income for non – banking service	45	45
Other operating income	192	170
<b>Expenses</b>	<b>-84</b>	<b>-85</b>
Membership fees	-54	-47
Other operating expense	-30	-38

## 30. GENERAL ADMINISTRATIVE EXPENSES

in thousand EUR	2007	2006
<b>Labour costs</b>		
gross salaries	4,686	4,012
social security contributions	281	251
pension insurance contributions	373	331
other duties related to gross salaries	227	263
other labor costs	577	548
<b>TOTAL</b>	<b>6,144</b>	<b>5,405</b>
<b>Costs of material and services</b>		
Material	195	197
Rent	275	183
Services	1,042	1,422
Consulting and auditing services	139	389
Bank security services	85	76
Legal services	181	221
ÖVAG and VBI services	382	425
Postage, telecommunication and data transfer costs	255	311
Advertising	597	483
Representation expenses	88	41
Seminars and tuition fees	134	109
Maintenance	555	579
Other	1,179	890
<b>TOTAL</b>	<b>4,067</b>	<b>3,904</b>

117

### 31. DEPRECIATION

in thousand EUR	2007	2006
Depreciation of property and equipment	-708	-801
Depreciation of intangible assets	-580	-579
<b>TOTAL</b>	<b>-128</b>	<b>-222</b>

### 32. IMPAIRMENT AND PROVISIONS

in thousand EUR	Recognition of impairment and allocation to provisions	Derecognition of impairment and allocation provisions	Total 2007
Loans	-2,360	1,639	-721
Interest	-52	131	79
Other receivables	-91	50	-41
<b>Impairment</b>	<b>-2,503</b>	<b>1,820</b>	<b>-683</b>
Provisions for off balance liabilities	-179	168	-11
Provisions for pending legal issues	-40	0	-40
Provisions for long-term employee benefits	-63	0	-63
Provisions for loyalty bonus	-19	0	-19
Provisions for severance payments	-44	0	-44
Other provisions	-26	0	-26
<b>Provisions</b>	<b>-309</b>	<b>168</b>	<b>-140</b>
<b>Total impairment and provision</b>	<b>-2,812</b>	<b>1,988</b>	<b>-824</b>

### 33. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR

In 2007, the Bank generated a net profit before tax of 3,026 thousand EUR. The Bank calculated deferred tax of -278 thousand EUR. The net profit for 2007 was 2,748 thousand EUR.

### 34. DATA ON INCOME AND EXPENSES FROM FOREIGN MARKETS

in thousand EUR	2007	2006
Total income of the Bank (gross)	44,011	32,317
Income from foreign markets	5,863	7,036
Share of income from foreign markets	13.32	21.77
Total expenses of the Bank (gross)	38,434	31,195
Expenses incurred in foreign markets	14,765	15,526
Share of expenses incurred in foreign markets	38.42	49.77

The majority of the Bank's income and expenses from foreign markets are derived from transactions with the bank VB AG and VBI.

### 35. COSTS OF SERVICES OF THE AUDITOR

In accordance with the respective contract the Bank paid 43,750 EUR for audit of annual report and in addition paid VAT on this amount. For non-audit services (translation service) the bank paid 567 EUR in total.

### 36. EFFECTIVE TAX RATE

in thousand EUR	2007	2006
Net profit or loss before taxes	3,026	1,123
Statutory tax rate 23% (2006: 25%) = estimated tax liability	696	281
		0
Change of statutory tax rate	2	37
Deduction of tax base due to release of previously not recognised provisions	4	-29
Additions to tax base (not recognised provisions, valuation, vacation money, representation expenses)	-52	193
Allowances (investment incentive, voluntary pension insurance)	43	-69
Net temporary time difference (deferred tax)	25	2
Other (recognition of tax loss from 2003)	397	0
Actual income tax	278	415
Effective tax rate	9,17%	36,96%

### 37. AVERAGE NUMBER OF EMPLOYEES IN 2006 AND NUMBER OF EMPLOYEES AS AT 31 DECEMBER 2006

There were 177,6 employees on average employed in the Bank in 2007. As at 31 December 2007, there were 183 employees working in the bank, 5 employees hold a Master's degree, 74 hold an university degree, 15 hold 2-year university degree and 89 employees have a secondary school education.

### 38. DATA ON OPERATION OF ORGANISATIONAL UNITS ABROAD

The Bank has no business-organisational units abroad.

### 39. FIDUCIARY BUSINESS

in thousand EUR	31. 12. 2007	31. 12. 2006
Fiduciary business	39,405	11,562

The position contains mainly syndicated loans.

### 40. DOCUMENTS RELATING TO PARTICIPATION RIGHTS, CONVERTIBLE BONDS

The Bank holds no documents relating to participation rights and convertible bonds.

### 41. ASSETS PLEDGED BY THE BANK AS COLLATERAL FOR ACQUIRED SOURCES OF FUNDS

As at 31. 12. 2007 the Bank had 7,885,367.73 EUR of first-class securites in pool of financial asset at Bank of Slovenia in foreign currency that were pledged at Bank of Slovenia for intraday liquidity and execution of payments.

### 42. SUBORDINATED INSTRUMENTS

The Bank holds no investments in the subordinated instruments of other issuers.

### 43. RELATED PARTIES AS AT 31 DECEMBER 2007

#### Balance of receivables and off-balance sheet liabilities

in thousand EUR	Management board members	Supervisory board members	Employees on individual employment contracts	Total
Balance sheet	115	0	585	700
Off-balance sheet	7	0	29	36
<b>TOTAL</b>	<b>122</b>	<b>0</b>	<b>614</b>	<b>736</b>
Repayments of loans during the year	13	0	422	435

The Bank has no internal owners and therefore does not disclose their receipts.

The business conditions for members of the Management Board, members of the Supervisory Board, employees on individual employment contracts and internal owners of the Bank are equal to those applicable for all other Bank employees and their family members.

#### Paid amounts

in thousand EUR	Management board members	Supervisory board members	Employees on individual employment contracts	Total
Gross receipts	298,699.19	0	618,014.07	916,713.26
Profit participation	0	0	0	0
Meeting attendance fees	0	0	0	0
<b>TOTAL</b>	<b>298,699.19</b>	<b>0</b>	<b>618,014.07</b>	<b>916,713.26</b>

The Bank has three Management Board members, four Supervisory Board members, while thirteen employees hold individual employment contracts, five of them hold the procurement.

#### Claims and liabilities towards owner - VBI AG

in thousand EUR	
<b>CLAIMS</b>	<b>8</b>
Claims for non -banking services	8
<b>LIABILITIES</b>	<b>188,178</b>
Long-term loans from banks in EUR	100,000
Long-term loans from banks in foreign currency	88,055
Liabilities for non- banking services	123

#### Income and expense with owner - VBI AG

in thousand EUR

<b>EXPENSE</b>	<b>4,529</b>
Interest expense	3,506
Counselling and other services	375
Fees for loan business	648
<b>INCOME</b>	<b>8</b>
Other incomes	8

122

#### 44. NOTES TO THE CASH FLOW STATEMENT

The bank prepared the cash flow statement according to the direct method basing on detailed data from profit and loss account and balance sheet. As cash equivalents it considered all financial assets, of which original maturity is up to three months. According to IAS 7 these are short-term, highly liquid assets, which can be transformed to defined cash amounts and where the risk of change in value is insignificant. Differences between data on two consecutive balance sheets and income statements 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 per 31. 12. 2005

<b>1. Cash and cash balances with central banks</b>	4,034
<b>2. Loans to bank and savings' banks, which mature in 3 months</b>	15,225
Transaction accounts abroad in foreign currency	401
Overnight deposits abroad in foreign currency	8,999
Transaction accounts in Slovenia in foreign currency	652
Short-term deposits at other banks - up to 30 days	4,173
Short-term deposits at Slovene banks	1,000
<b>TOTAL</b>	<b>19,259</b>

#### Cash and cash equivalents as per 31. 12. 2006

<b>1. Cash and cash balances with central banks</b>	20,622
<b>2. Loans to bank and savings' banks, which mature in 3 months</b>	11,792
Transaction accounts abroad	238
Transaction accounts abroad in foreign currency	335
Overnight deposits abroad	1,900
Overnight deposits abroad in foreign currency	450
Transaction accounts at banks in Slovenia	364
Transaction accounts at banks in Slovenia in foreign currency	126
Short-term deposits at other banks - up to 30 days	8,378
<b>TOTAL</b>	<b>32,414</b>

123

#### Cash and cash equivalents as per 31. 12. 2007

<b>1. Cash and cash balances with central banks</b>	7,231
<b>2. Loans to bank and savings' banks, which mature in 3 months</b>	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
<b>TOTAL</b>	<b>48,858</b>

#### 45. POST-BALANCE SHEET EVENTS

In the period between the submission of the financial statements which form the basis of this report and the completion of the report, the Bank experienced no business events that would affect the aforementioned financial statements, the profit and the disclosures made in the report.

GAŠPER JEMEC



»Snow Leopard« (detail), 2007,  
variable dimensions, acrylics on canvas



ZAUPANJE NAS POVEZUJE.  
UNITED IN TRUST.

07

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of Volksbank – Ljudska banka d.d. Ljubljana

We have audited the accompanying consolidated financial statements of the bank Volksbank – Ljudska banka d.d. Ljubljana Group which comprise the balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We also read the Management Report.

### 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 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statement are free of material misstatements. An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 bank Volksbank – Ljudska banka d.d. Ljubljana Group as at 31 December 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Management Report is in conformity with the audited consolidated financial statements.

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

Marija Hejja, B.Sc.Ec.



Certified Auditor

Boris Drobnič, B.Sc.Ec.



Certified Auditor  
Partner

Ljubljana, May 7<sup>th</sup> 2008

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED BALANCE SHEET AS AT 31. 12. 2007

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>ASSETS</b>		
Cash and cash balances with central banks	7,231	20,622
Financial assets held for trading	16	44
Available-for-sale financial assets	14,990	52,291
Loans and receivables	578,126	386,886
loans and receivables to banks	50,357	26,403
loans and receivables to non-bank customer	527,768	360,483
Held-to-maturity investments	6,068	6,075
Accrued interest income on financial assets	0	8
Property, plant and equipment	8,217	7,672
Investment property	1,257	1,445
Intangible assets	435	489
Tax assets	440	713
current taxes	1	0
deferred taxes	438	713
Other assets	1,620	8,725
<b>TOTAL ASSETS</b>	<b>618,400</b>	<b>484,969</b>

128

in thousand EUR	31. 12. 2007	31. 12. 2006
<b>LIABILITIES</b>		
Financial liabilities held for trading	0	37
Financial liabilities measured at amortised cost	566,862	444,638
deposits from banks	116,186	7,273
deposits from non-banks	173,940	110,738
loans and advances from banks	257,807	310,505
loans and advances from non banks	0	20
subordinated liabilities	18,928	16,103
Accrued interest expenses on financial liabilities	0	7
Provisions	362	279
Tax liabilities	488	543
deferred tax liabilities	488	543
Other Liabilities	2,402	8,729
<b>TOTAL LIABILITIES</b>	<b>570,114</b>	<b>454,232</b>
<b>EQUITY</b>		
Basic equity capital	32,059	23,254
Share premium account	19,082	12,889
Revaluation reserves	-146	37
Reserves from profit (including retained earnings)	-5,443	-6,125
Income from current year	2,733	682
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF PARENT	0	0
Minority interest	0	0
<b>TOTAL EQUITY</b>	<b>48,285</b>	<b>30,737</b>
<b>TOTAL LIABILITY AND EQUITY</b>	<b>618,400</b>	<b>484,969</b>

129

## CONSOLIDATED INCOME STATEMENT FOR 2007

in thousand EUR

	31. 12. 2007	31. 12. 2006
Interest income and similar income	29,343	21,002
Interest expenses and similar expenses	-17,279	-12,247
<b>Net interest income</b>	<b>12,063</b>	<b>8,755</b>
Dividend income	1	0.5
Fee and commission income	2,663	2,490
Fee and commission expense	-958	-319
<b>Net fee and commission income</b>	<b>1,705</b>	<b>2,171</b>
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	-71	-49
Gains and losses on financial assets and liabilities held for trading	940	660
Exchange differences	-110	-43
Gains and losses on derecognition of assets other than held for sale	81	162
Result from other operating activities	185	142

130

in thousand EUR

	31. 12. 2007	31. 12. 2006
Administrative expenses	-10,239	-9,334
Amortisation	-732	-826
Provisions	-140	24
Impairment	-677	-540
<b>TOTAL PROFIT AND LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>3,005</b>	<b>1,123</b>
Tax expense (income) related to profit and loss from continuing operations	-273	-441
<b>TOTAL PROFIT AND LOSS AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>2,732</b>	<b>682</b>
Total profit or loss after tax from discontinued operations	0	0
<b>NET PROFIT OR LOSS for the financial year</b>	<b>2,732</b>	<b>682</b>
a) Profit or loss attributable to equity holder of the parent	2,732	682
b) Profit and loss attributable to minority interest	0	0

131

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CAPITAL FOR REPORTING PERIOD

Consolidated statement of changes in equity capital for the period 1. 1. - 31. 12. 2007

in thousand EUR

No.	Item description	Basic equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
1	<b>OPENING BALANCE FOR THE REPORTING PERIOD</b>	23,254	12,889	37	6	-6,131	682	30,737
2	Net gains/losses in revaluation reserves from financial assets available for sale			-183				
7	<b>Net profit or loss for the financial year (from income statement)</b>			-183				
8	Net profit or loss for the financial year recognised in equity (6+7)						2,733	
9	<b>New share capital subscribed ( paid)</b>	0	0	-183	0	0	2,733	2,550
10	Repayment of equity	8,805	6,193					14,998
15	Covering of the loss brought forward					682	-682	0
18	<b>BALANCE SHEET AVAILABLE PROFIT for financial year</b>	32,059	19,082	-147	6	-5,449	2,733	48,285

132

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CAPITAL FOR PREVIOUS PERIOD

Consolidated statement of changes in equity capital for the period 1. 1. - 31. 12. 2006

in thousand EUR

No.	Item description	Basic equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
1	<b>OPENING BALANCE FOR THE REPORTING PERIOD</b>	17,412	8,799	67	6	-6,835	704	20,153
2	Net gains/losses in revaluation reserves from financial assets available for sale			-31				
7	<b>Net profit or loss for the financial year (from income statement)</b>			-31				
8	Net profit or loss for the financial year recognised in equity (6+7)						682	
9	<b>New share capital subscribed (paid)</b>	0	0	-31	0	0	682	652
10	Repayment of equity	5,842	4,089					9,932
15	Covering of the loss brought forward					704	-704	0
18	<b>BALANCE SHEET AVAILABLE PROFIT for financial year</b>	23,254	12,889	37	6	-6,131	682	30,737

133

CONSOLIDATED STATEMENT OF CASH FLOWS (1. 1. 2007 TO 31. 12. 2007)

In thousand EUR

Desig.	Item description	31. 12. 2007	31. 12. 2006
<b>A.</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>a)</b>	<b>Total profit or loss before tax</b>	<b>3,006</b>	<b>1,123</b>
	Depreciation	732	826
	Impairments / (reversal of impairments) of financial assets held to maturity	683	559
	Impairments of tangible assets, investment property, intangible fixed assets and other assets	4	-19
	Net (gains) / losses from exchange differences	110	43
	Net (gains) / losses from financial assets held to maturity	124	50
	Net (gains) / losses from sale of tangible assets and investment properties	-94	-162
	Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	-92	-14
	Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)	0	61
	Other adjustments to total profit or loss before tax	126	-24
	Cash flow from operating activities before changes in operating assets and liabilities	4,599	2,443
<b>b)</b>	<b>(Increases) / decreases in operating assets</b>	<b>-115,356</b>	<b>60,472</b>
	Net (increase) / decrease in financial assets available for sale	41,452	40,941
	Net (increase) / decrease in loans and receivables	-163,809	-94,115
	Net (increase) / decrease in interest on financial assets (accrued income)	-8	-7
	Net (increase) / decrease in deferred charge	-24	13
	Net (increase) / decrease in non-current assets held for sale	0	-41
	Net (increase) / decrease in other assets	7,033	-7,263
<b>c)</b>	<b>(Increases) / decreases in operating liabilities</b>	<b>115,012</b>	<b>62,305</b>
	Net (increase) / decrease in financial liabilities held for trading	27	34
	Net (increase) / decrease in deposits, loans and receivables and debt securities measured at amortised cost	121,281	55,417
	Net (increase) / decrease in liability-derivative	7	0
	Net (increase) / decrease in interest on financial liabilities (accrued expenses)	0	-31

134

In thousand EUR

Desig.	Item description	31. 12. 2007	31. 12. 2006
	Net (increase) / decrease in deferred income	97	124
	Net (increase) / decrease in other liabilities	-6,400	6,761
<b>č)</b>	<b>Cash flow from operating activities (a+b+c)</b>	<b>4,255</b>	<b>4,276</b>
<b>d)</b>	<b>Income taxes (paid) refunded</b>	<b>0</b>	<b>0</b>
<b>e)</b>	<b>Net cash flow from operating activities (č+d)</b>	<b>4,255</b>	<b>4,276</b>
<b>B.</b>	<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>		
<b>a)</b>	<b>Receipts from investing activities</b>	<b>361</b>	<b>338</b>
	Receipts from the sale of tangible assets and investment properties	360	172
	Other receipts from investing activities	1	166
<b>b)</b>	<b>Cash payments on investing activities</b>	<b>5,044</b>	<b>1,377</b>
	(Cash payments to acquire tangible assets and investment properties)	1,196	1,303
	(Cash payments to acquire intangible fixed assets)	61	0
	(Cash payment for the investment in subsidiaries, associates and joint ventures)	838	74
	(Cash outflow to non-current assets or liabilities held for sale)	2,949	0
<b>c)</b>	<b>Net cash flow from investing activities (a-b)</b>	<b>-4,683</b>	<b>-1,039</b>
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>a)</b>	<b>Cash proceeds from financing activities</b>	<b>17,799</b>	<b>9,932</b>
	Cash proceeds from subordinated liabilities issued	2,800	0
	Cash proceeds from issuing shares and other equity capital instruments	14,999	9,932
<b>b)</b>	<b>Cash payments on financing activities</b>	<b>835</b>	<b>0</b>
	(Other cash payments related to financial activities)	835	0
<b>c)</b>	<b>Net cash flow from financing activities (a-b)</b>	<b>16,964</b>	<b>9,932</b>
<b>D.</b>	<b>Effects of change in exchange rates on cash and cash equivalents</b>	<b>-92</b>	<b>-14</b>
<b>E.</b>	<b>Effects of change in fair value on cash and cash equivalents</b>	<b>0</b>	<b>0</b>
<b>F.</b>	<b>Net increase in cash and cash equivalents (Ae+Bc+Cc)</b>	<b>16,536</b>	<b>13,169</b>
<b>G.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>32,414</b>	<b>19,259</b>
<b>H.</b>	<b>Closing balance of cash and cash equivalents (D+E+F+G)</b>	<b>48,858</b>	<b>32,414</b>

135

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

According to the competence legislation (Companies Act, Banking Act) bank prepared group financial statements. The members to be grouped are Volksbank – Ljudska banka d.d. as parent-company and subsidiary Privatinvest d.o.o.

Bank is 100% owner of the company Privatinvest d.o.o.

Due to immaterial influence of items as: assets, debts, incomes and outflows regarding subsidiary; comparing to the balance categories of the bank (total assets of subsidiary represents only 0,31% of total assets of the group), bank did not prepare the consolidated annual report in accordance to the 56. article of ZGD-1. The consolidated financial statements are included in separated chapter of annual report of the Bank.

The notes to the financial statements are reasonably used also for financial statements of the group.

### **Additional comments to group financial statements**

During the process of consolidation all the internal relations, receivables and liabilities, incomes and outflows were eliminated.

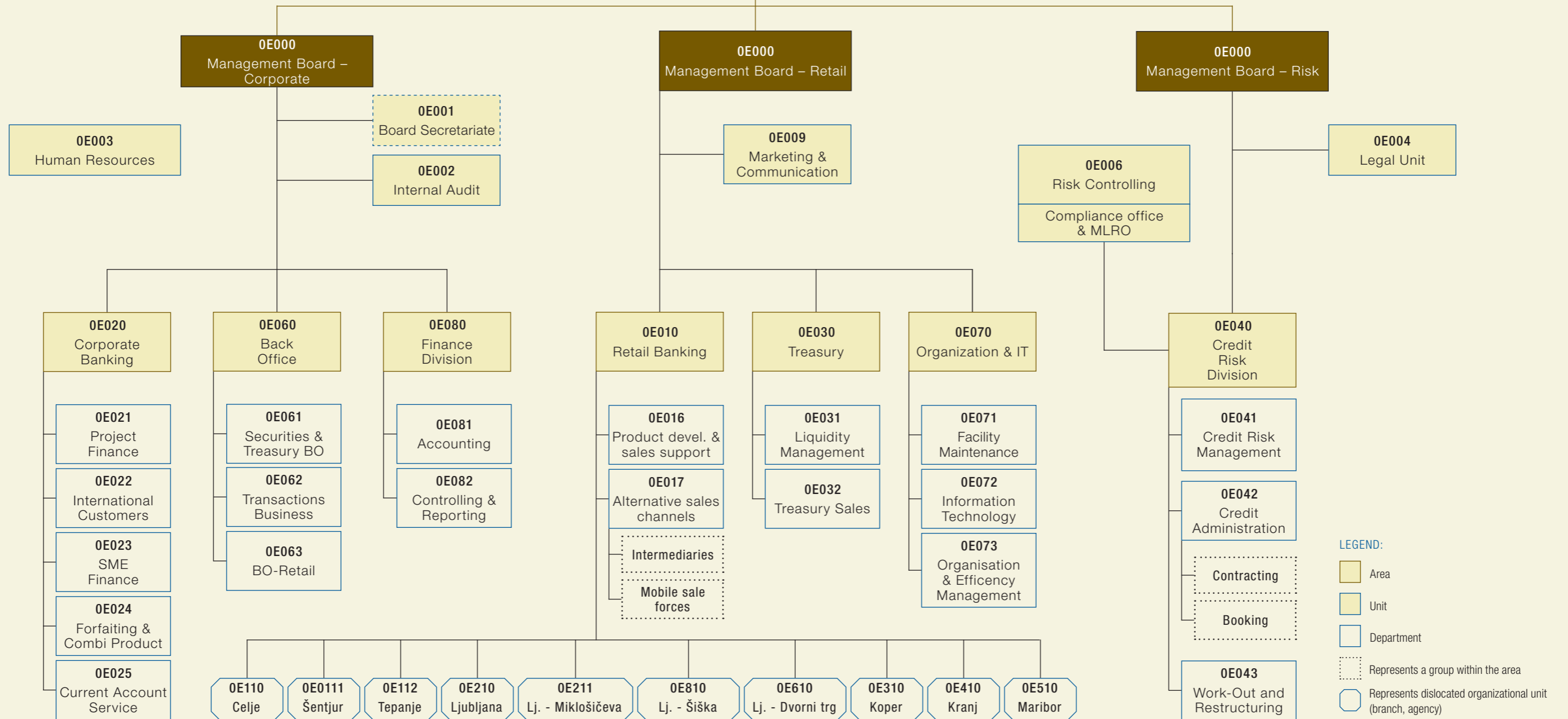
Also entire capital of Privatinvest d.o.o., which represents 1,614 thousand EUR of long-term investment for the bank, was eliminated. Equity in Privatinvest d.o.o. represents almost 100% of its refinancing.

During the consolidation the assets of Privatinvest d.o.o. on transaction account and sight deposits with the Bank in total amount of 9 thousand EUR were reconciled. Short-term deposits given of Privatinvest d.o.o. and deposits taken by the Bank in the amount 235 thousand EUR were also reconciled. Other liabilities of Privatinvest d.o.o. and other assets on bank's balance sheet were also reconcile in the amount of 13 thousand EUR.

In consolidated profit and loss account interest expense of Privatinvest d.o.o. and bank's interest income (2 thousand EUR) were reconciled as well as administrative expenses of Privatinvest d.o.o. and bank's other operating incomes (11 thousand EUR).

# ORGANIZATIONAL STRUCTURE

ORGANIZATIONAL CHART VOLKSBANK – LJUDSKA BANKA D.D.



## KEY FIGURES

In thousand EUR

	2005	2006	2007
<b>1. Balance sheet (as at 31 December)</b>			
Balance sheet total	413,307	484,778	618,327
Total deposits from non-bank clients	117,672	110,961	174,184
a) from companies and organisations	64,434	53,761	110,070
b) from private individuals	53,238	57,200	64,114
Total loans to non-bank clients	263,737	360,345	527,615
a) to companies and organisations	180,183	243,891	341,546
b) to private individuals	83,554	116,454	186,069
Total capital	19,930	30,529	48,045
Impairment and provisions	7,833	8,226	8,117
Off-balance-sheet operations	69,805	83,717	114,448
Average deposits from households	54,411	56,750	65,698
Average loans to households	80,487	113,919	169,694
<b>2. Income statement (from 1. 1. to 31. 12.)</b>			
Net interest income	7,983	8,736	12,060
Net non-interest income	1,799	3,032	2,708
Staff costs, general and admin. expenses	8,108	9,309	10,211
Depreciation	693	801	708
Risk provisions	-83	-535	-823
Profit before tax	906	1,123	3,026
Corporate income tax	-259	-415	-278
<b>3. Number of employees (at year's end)</b>	155	170	183

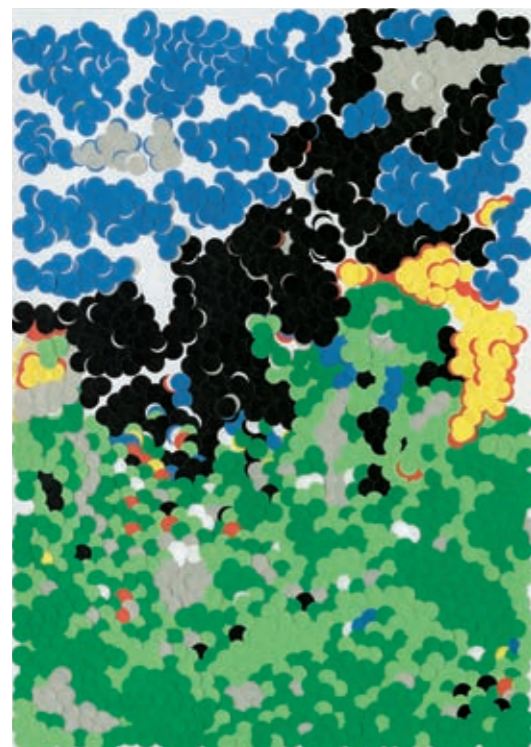
140

In thousand EUR

	2005	2006	2007
<b>4. Shares</b>	155	170	183
Number of shareholders	36	35	34
Number of shares	4,009,095	5,409,095	7,524,542
Nominal value of share (in SIT)	4.17	4.17	4.17
Book value of share (in SIT)	4.11	5.65	6.39
<b>5. Indicators in %</b>			
a) Capital			
Capital (amount)	28,338	40,436	59,866
Capital adequacy	10.61	12.06	11.24
b) Asset quality			
value adj. for fin. assets measured at amortized costs / gross assets			
c) Profitability			
Interest margin	2.16	1.91	2.24
Operating margin (net interest + net fees / avg. assets)	2.65	2.57	2.74
Return on assets	0.25	0.25	0.56
Return on equity before tax	4.64	3.89	8.43
Return on equity after tax	3.32	2.45	7.66
d) Operating costs			
Operating costs / average assets	2.38	2.21	2.03
e) Liquidity			
average liquid assets / average short term deposits of non-banking sector	12.32	11.9	17.91
average liquid assets / average assets	3.53	2.87	5.78

141

GAŠPER JEMEC



»Four Seasons«,  
2002, collage, 25 x 20 cm

142

## SERVICE

Austria

Bosnia in Herzegovina

Croatia

Czech Republic

**SLOVENIA**

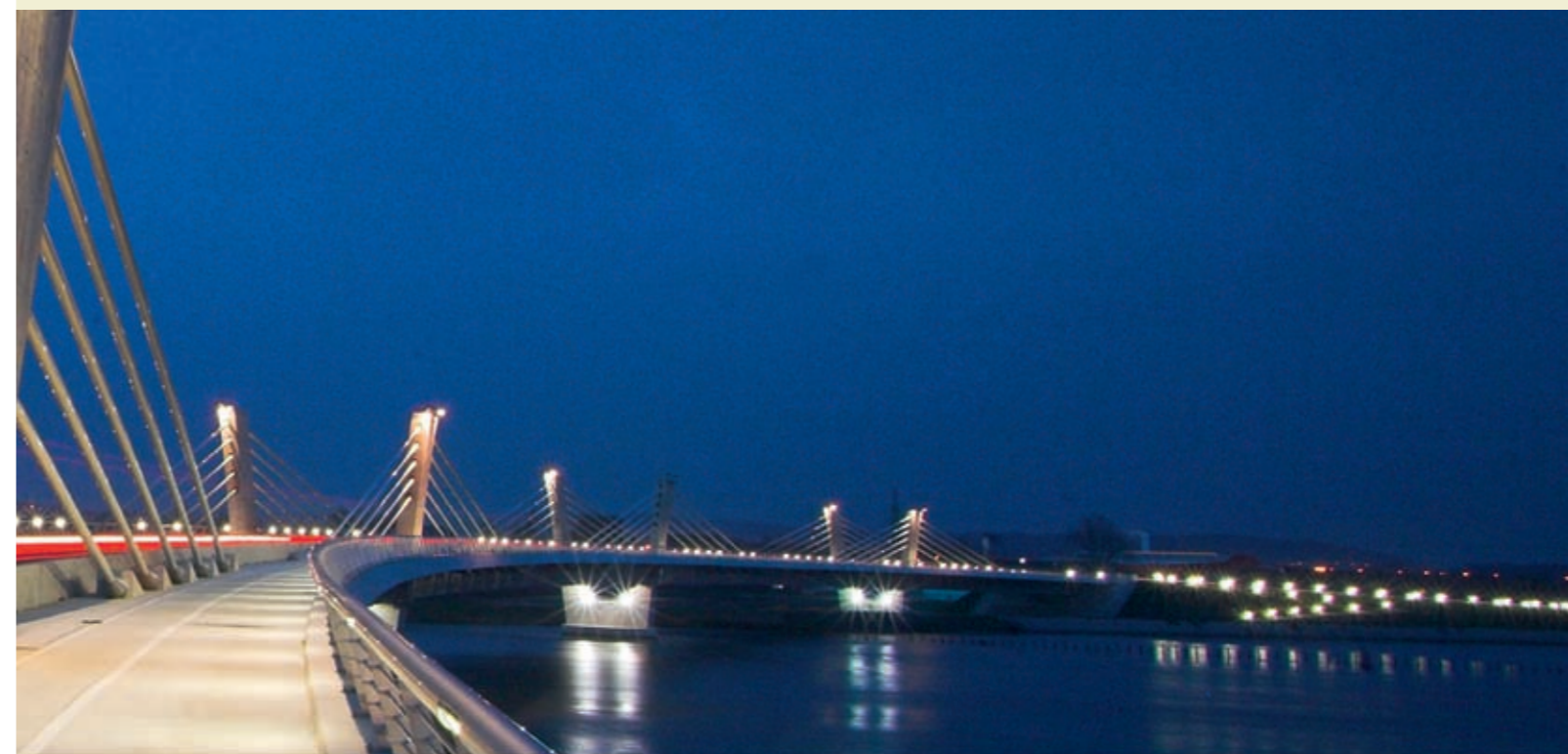
Hungary

Romania

Serbia

Slovakia

Ukraine



ZAUPANJE NAS POVEZUJE.  
UNITED IN TRUST.

07

The Ptuj Bridge

Photo: Urban Golob

## OUR NETWORK

### HEAD OFFICE

Volksbank – Ljudska banka d.d.  
Dunajska cesta 128 a  
1000 Ljubljana  
Tel.: 01/ 53 07 400  
Fax: 01/ 53 07 555

### BRANCHES

#### Ljubljana

Dunajska cesta 128 a  
1000 Ljubljana  
Tel.: 01/ 53 07 530  
Fax: 01/ 53 07 560

Gosposka ulica 1  
1000 Ljubljana  
Tel.: 01/ 24 10 172  
Fax: 01/ 24 10 192

Miklošičeva 30  
1000 Ljubljana  
Tel.: 01/ 23 06 390  
Fax: 01/ 23 06 392

Pavšičeva 4  
1000 Ljubljana  
Tel.: 01/ 50 00 790  
Fax: 01/ 50 00 796

#### Kranj

Tavčarjeva ulica 21  
4000 Kranj  
Tel.: 04/ 20 13 880  
Fax: 04/ 20 13 888

### BRANCHES

#### Koper

Pristaniška 43a  
6000 Koper  
Tel.: 05/ 66 34 868  
Fax: 05/ 66 34 872

#### Maribor

Poslovna zgradba City Jug  
Ul. Heroja Bračiča 6  
2000 Maribor  
Tel.: 02/ 23 80 340  
Fax: 02/ 23 80 344

#### Celje

Prešernova 27  
3000 Celje  
Tel.: 03/ 42 87 814  
Fax: 03/ 42 87 818

#### Šentjur

Mestni trg 2  
3230 Šentjur pri Celju  
Tel.: 03/ 74 71 840  
Fax: 03/ 74 71 842

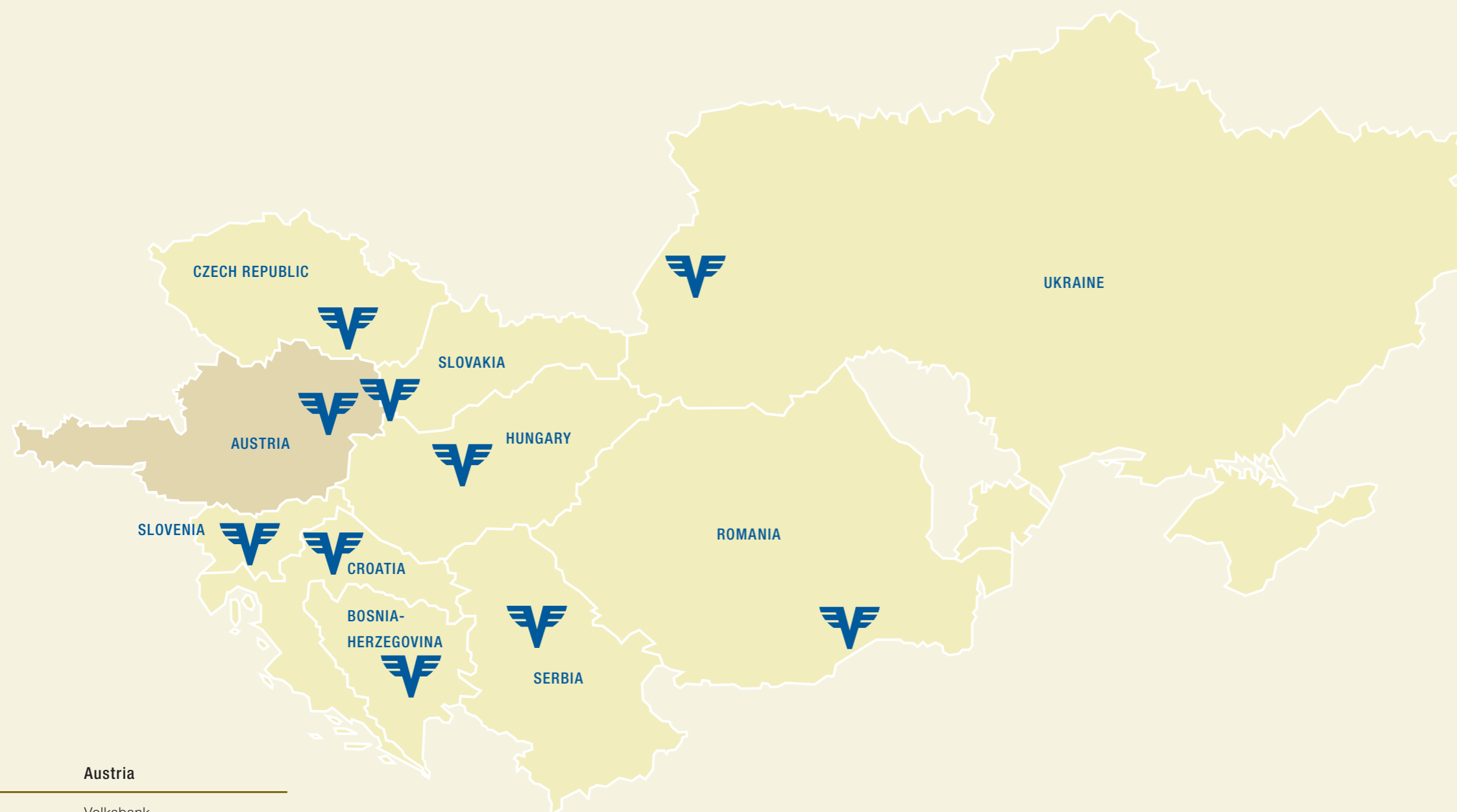
#### Tepanje

Poslovni center Tepanje  
3210 Slovenske Konjice  
Tel.: 03/ 75 80 850  
Fax: 03/ 75 80 852

### SHAREHOLDINGS

VBS Leasing d.o.o.  
Dunajska cesta 128 a  
1000 Ljubljana  
Tel.: 01 56 34 400  
Fax: 01 56 34 403

**VOLKSBANK INTERNATIONAL AG  
IN CENTRAL AND EASTERN EUROPE**



**Austria**

Volksbank  
International AG  
Leonard-Bernstein-Strasse 10  
A-1220 Vienna, Saturn Tower  
Tel.: 0043 (0)50 4004-0  
Fax: 0043 (0)50 4004-3905  
www.vbi.at

**Bosnia and Herzegovina**

Volksbank BH d.d.  
Fra Anđela Zvizdovića 1  
BiH-71000 Sarajevo  
Tel.: 00387/33 295 601  
Fax: 00387/33 295 603  
www.volksbank.ba

Volksbank a.d. Banja Luka  
Jevrejska ulica bb  
BiH-78000 Banja Luka  
Tel.: 00387/51 241 100  
Fax: 00387/51 213 391  
www.volksbank-bl.ba

**Czech Republic**

Volksbank CZ, a.s.  
Lazarská 8  
CZ-12000 Praha  
Tel.: 00420/221 96 99 11  
Fax: 00420/221 96 99 51  
www.volksbank.cz

**Romania**

Volksbank Romania S.A.  
Mihai Bravu 171, Sector 2  
RO-021323 Bucharest  
Tel.: 00402/1209 44 00  
Fax: 00402/1209 44 90  
www.volksbank.ro

**Hungary**

Magyarországi Volksbank Zrt.  
Rákóczi út 7  
H-1088 Budapest  
Tel.: 00361/328 66 66  
Fax: 00361/328 66 04  
www.volksbank.hu

**Slovakia**

Volksbank Slovensko, a.s.  
Vysoká 9  
SK-810 00 Bratislava  
Tel.: 00421/2/5965 1111  
Fax: 00421/2/5441 2453  
www.volksbank.sk

**Serbia**

Volksbank a.d.  
Bulevar Mihaila Pupina 165 g  
RS-11070 Belgrade  
Tel.: 00381/11/201 3259  
Fax: 00381/11/201 3270  
www.volksbank.co.yu

**Slovenia**

Volksbank – Ljudska banka d.d.  
Dunajska cesta 128 a  
SLO-1000 Ljubljana  
Tel.: 00386/1/530 74 00  
Fax: 00386/1/530 75 55  
www.volksbank.si

**Croatia**

Volksbank d.d.  
Varšavska 9  
HR-10000 Zagreb  
Tel.: 00385/1/4801 300  
Fax: 00385/1/4801 365  
www.volksbank.hr

**Ukraine**

OJSC Electron Bank  
Grabovskogo 11  
UA-79000 Lviv  
Tel.: +380/32 297 13 03  
Fax: +380/32 297 13 82  
www.elbank.com.ua

**Published by**

Volksbank – Ljudska banka d.d.  
Dunajska cesta 128 a  
1000 Ljubljana  
Slovenija