



Annual report 2002

Nova Ljubljanska banka d.d., Ljubljana



ljublјanska banka



Creating a new model of banking culture with excellence, trust and tradition.



Build on the leading position in Slovenia.



Innovation is our core competency.



Become a leading banking financial group in Southeast Europe.

PROFILE OF NLB GROUP AND NLB

2002

Nova Ljubljanska banka Group ('the Group') is the strongest financial and banking group in Slovenia and is becoming a key regional player in south-east Europe. It has reached a market share of almost 40 percent of the Slovenian banking sector that now consists of 19 banks and is growing its market share in the important countries in the region.

The Group consists of 39 banks and companies in Slovenia and abroad. Nova Ljubljanska banka d.d., Ljubljana ('NLB' or 'the Bank') is the largest and most important financial institution, accounting for over three quarters of consolidated total assets. Group member banks in Slovenia include three daughter banks, Koroška banka, Banka Zasavje and Banka Domžale and an associate bank, Banka Celje. The Slovene companies include LB Leasing, LB Factors, Feniks, Fit Leasing, LB Maksima, LB Hipo, LB Propria, Real, Bankart, Prospera Plus and Skupna pokojninska družba. These companies are involved in a range of activities including leasing, factoring, forfeiting, asset management and pension insurance.

The NLB Group abroad is present in two core geographical regions - the EU markets including candidate countries and southeast Europe markets. NLB holdings abroad include foreign banks: LHB Internationale Handelsbank, Frankfurt, Tutunska banka, Skopje and Commercebank, Sarajevo, Adria Bank, an Austrian affiliated bank. Other important foreign financial organisations include LB InterFinanz AG, Zurich, LB InterFinanz Praha and LB Factoring CZ, Ostrava. NLB is among the best rated banks in Central and Eastern European region, with ratings A- (Fitch, Capital Intelligence), Baa2 (Moody's) and BBB- (S&P's).

In September 2002 the first phase of privatisation successfully concluded with a 34 percent stake of the state being purchased by the Belgian banking and insurance group KBC and 5 percent by the European Bank for Reconstruction and Development (EBRD).

The privatisation process has brought considerable change within the organisation with a change in the Management Board and the Supervisory Board that is now reflecting the new ownership structure. This has brought further improvement in corporate governance and provided a sound base for future growth.

On the business front NLB maintained its position as the leading bank in Slovenia, despite increased competition

especially from foreign banks present in the local market.

At present 95 percent of the total assets of the NLB Group is represented by banks. Significant groundwork was completed in the preparation for development of new fields complementing traditional banking activities. In particular bankassurance and asset management, are areas that NLB will enter into while other strategic activities that are yielding dividends include leasing, factoring and forfeiting.

In 2003 NLB will offer clients bank-assurance services in co-operation with KBC. NLB and KBC are in the process of establishing a new life insurance company, NLB Vita. The operational plan is in process and includes how the company will approach the market, the target range of products and integral sales. At the same time, we will start to market new services within asset management by establishing a company NLB Skladi.

Operationally NLB continued its business rationalisation and technology development through the IT based SIGMA project. A number of new operations were ported onto the new IT platform during the year and a new delivery channel mobile phone banking was introduced.

With the intention of achieving greater quality of NLB operations, a new organisation structure was implemented at the beginning of 2003. Its primary advantage is combining business into five centers regarding customer segments. These centres are: Treasury, Investment Banking, Asset Management and Group Investments Value Centre, Retail, SME and E-Banking Value Centre, Corporate Banking Value Centre, International Banking, Information Technology and Operations (Value Centre) and Governance Centre.

2001

The state's shareholding in NLB capital reduced by 8.7 percentage points following the acquisition of three Slovenian daughter banks (Dolenjska banka, Banka Velenje and Pomurska banka). The integration of the three daughter banks enabled both the Group and NLB to further strengthen their core competitive advantages in the domestic market. Koroška banka, Banka Zasavje and Banka Domžale while they are subsidiaries they still remain to be fully acquired in the next period. The Group also holds a share in its associated bank, Banka Celje.

Fitch upgraded NLB's long-term FX credit risk ratings to A- in July.

Rating Agency	Latest grade	NLB	Slovenia
Standard & Poor's	April, 2002	BBB-	A+
Moody's	July, 2002	Baa2	Aa3
FITCH	June, 2002	A-	A
Capital Intelligence	February, 2003	A-	A-

2000

Moody's and Capital Intelligence both upgraded NLB's long-term foreign currency credit ratings to Baa2 and A-. Together with Slovenia's largest insurance company, NLB established a new pension insurance company, Skupna pokojninska družba d.d., Ljubljana. With expansion outside Slovenia, NLB increases its operations. It acquires a significant capital shareholding in Tutunska banka a.d., Skopje. Commercebank d.d., Sarajevo joins the NLB Group.

1999, 1998

NLB introduces electronic banking service for corporate clients (Proklik) and Internet banking for retail clients. The Bank is increasing and strengthening its business volume in Slovenia.

1997

The official ending of the rehabilitation of NLB d.d., Ljubljana. Standard & Poor's, FITCH IBCA, Moody's, Thomson Financial BankWatch and Capital Intelligence each assigned Investment Grade Ratings to NLB. NLB becomes a major shareholder in Bankart, a card and ATM's processing company. A renewed corporate visual identity of NLB is launched.

1994

Nova Ljubljanska banka d.d., Ljubljana is established by Legislative Act of the National Assembly of the Republic of Slovenia. NLB assumes the majority of the assets, liabilities and operations of LB d.d., Ljubljana, with the exception of certain liabilities and guarantees of LB incurred during the existence of the former SFRJ. NLB establishes a company for managing investment funds, LB Maksima, and a joint stock company specialising in factoring, LB Factors.

Market shares in 2002

1993

LB d.d. entered a program of rehabilitation, initiated by the Government of the Republic of Slovenia and the Bank of Slovenia. Critical self-rehabilitation activities were implemented, which enabled strengthening of liquidity and solvency.

1991

Ljubljanska banka-Gospodarska banka, Ljubljana merges with LB d.d. and as a consequence LB d.d. acquires a significant network of domestic savings offices thereby enabling LB d.d. to adopt a universal banking status.

1990

All of LB banks become joint stock companies. The LB system comprises: Parent bank-LB d.d., Ljubljana, 5 subsidiaries and 14 member banks (formerly basic banks).

1978

Ljubljanska banka group is formed, consisting of: Ljubljanska banka-Združena banka and 22 associated banks.

1970

Kreditna banka and hranilnica Ljubljana is renamed to Ljubljanska banka, Ljubljana. The bank is in the top 100 banks of the World.

1955

Komunalna banka Ljubljana is formed.

1862- 89

First Slovene savings banks are established - 1862 in Maribor, in Celje 1865 and in 1889 Mestna hranilnica ljubljanska, predecessor of Nova Ljubljanska banka.

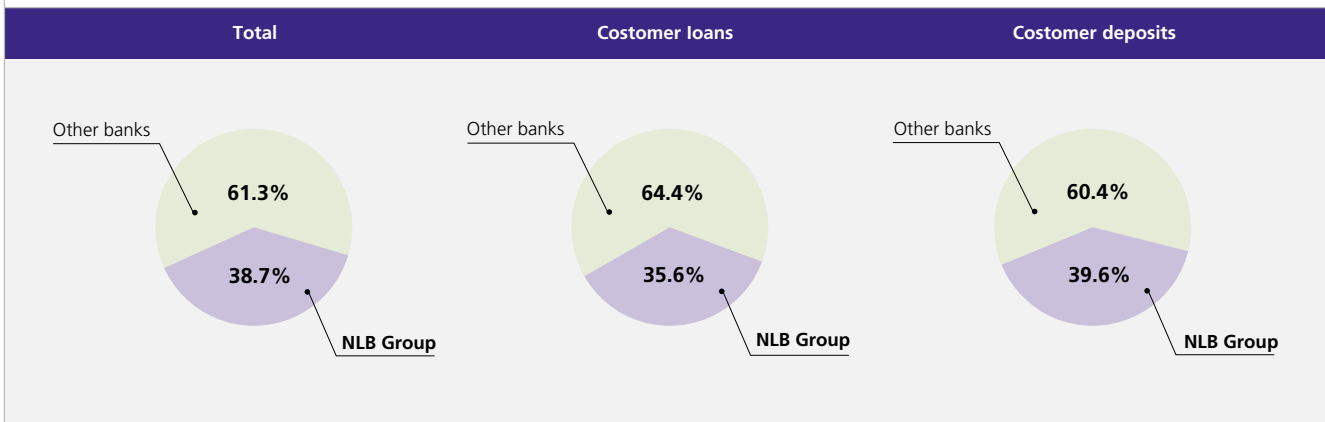


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NLB GROUP AND NLB FINANCIAL HIGHLIGHTS

Table 1: Selected financial data for the Group on the basis of consolidated audited financial statements prepared using Slovenian Accounting Standards

NLB GROUP (SAS)

IN BILLION TOLARS

INCOME STATEMENT	1999	2000	2001	2002
Net interest income	37.1	46.0	49.6	53.0
Net non-interest income	16.3	18.4	27.0	37.0
Costs	36.4	40.0	50.7	62.1
Profit before tax and provisios	17.3	25.5	25.9	27.9
Profit before tax	11.0	13.4	17.0	15.6
Minority interest	1.0	1.0	0.9	1.4
Taxes	5.5	6.5	8.8	8.4
Net profit	4.5	5.9	7.3	5.7
BALANCE SHEET at year end				
Total assets	986.4	1,165.5	1,731.9	1,981.0
Loans to non-banking customers	468.7	600.5	820.0	902.4
Non-bank customer deposits	692.8	740.8	1,110.1	1,260.3
Total equity	70.4	81.0	104.1	107.3
Minority interests	17.3	18.9	25.3	24.8
FIGURES in per cent				
Capital adequacy ratio	n.a.	12.7	11.1	11.5
Return on equity (before tax)	13.2	14.3	14.9	11.9
Return on average total assets (before tax)	1.20	1.24	1.18	0.84
Costs covered by net non-interest income	44.8	46.1	53.2	59.6
Costs as a share of total assets	3.95	3.72	3.50	3.34

Table 2: Selected financial data for the Bank on the basis of unconsolidated audited financial statements prepared using Slovenian Accounting Standards

NLB (SAS)

IN BILLION TOLARS

INCOME STATEMENT	1999	2000	2001	2002
Net interest income	24.7	31.7	31.5	35.7
Net non-interest income	12.2	13.6	21.5	32.0
Costs	22.8	26.1	34.3	46.1
Profit before tax and provisions	13.6	18.8	18.7	21.6
Profit before tax	8.3	10.0	12.1	12.6
Taxes	4.2	5.0	6.1	6.3
Net profit	4.2	5.0	6.1	6.3
BALANCE SHEET at year end				
Total assets	752.3	918.8	1,376.7	1,619.2
Loans to non-banking customers	353.4	443.1	635.4	704.1
Non-bank customer deposits	459.3	557.2	962.1	1,097.8
Total equity	68.3	77.8	104.6	112.6
FIGURES in per cent				
Capital adequacy ratio	9.6	9.3	9.1	10.7
Return on equity (before tax)	13.3	14.1	14.3	12.1
Return on average total assets (before tax)	1.19	1.21	1.14	0.86
Costs covered by net non-interest income	52.0	52.1	62.7	69.3
Costs as a share of total assets	3.36	3.18	3.16	3.19
Earnings per share in tolars	603.2	723.1	788.1	817.5

Table 3: Selected financial data for the Group on the basis of consolidated audited financial statements prepared using International Financial Reporting Standards**NLB GROUP (IFRS)**

IN BILLION TOLARS

INCOME STATEMENT	1999	2000	2001	2002
Net interest income	36.1	46.3	52.9	59.8
Net non-interest income	18.5	21.0	30.9	43.9
Costs	34.4	39.9	51.9	65.4
Profit before tax and provisions	20.3	27.9	33.8	39.7
Profit before tax	16.6	18.4	23.6	24.7
Minority interest	2.2	2.0	1.4	1.9
Taxes	5.6	6.5	8.7	8.6
Net profit	8.8	9.8	13.5	14.2
BALANCE SHEET at year end				
Total assets	969.9	1,146.4	1,722.3	1,972.0
Loans to non-banking customers	483.8	597.5	818.4	899.9
Non-bank customer deposits	626.3	740.8	1,110.1	1,260.3
Total equity	65.8	78.5	109.7	117.7
FIGURES in per cent				
Capital adequacy ratio (BIS)	15.2	13.5	12.8	13.7
Return on equity (before tax)	21.5	20.4	20.1	17.5
Return on average total assets (before tax)	1.83	1.74	1.64	1.34
Costs covered by net non-interest income	53.9	52.6	61.9	67.2
Costs as a share of total assets	3.79	3.77	3.62	3.54

Table 4: Selected financial data for the Bank on the basis of consolidated audited financial statements prepared using International Financial Reporting Standards**NLB (IFRS)**

IN BILLION TOLARS

INCOME STATEMENT	1999	2000	2001	2002
Net interest income	24.2	32.2	34.8	42.8
Net non-interest income	17.5	13.1	23.4	32.1
Costs	23.5	26.4	35.0	47.8
Profit before tax and provisions	12.7	19.0	23.2	27.2
Profit before tax	9.1	11.3	14.4	16.0
Taxes	4.3	5.0	6.1	6.3
Net profit	4.8	6.3	8.4	9.7
BALANCE SHEET at year end				
Total assets	731.6	893.5	1,355.7	1,591.4
Loans to non-banking customers	353.8	443.0	636.8	705.7
Non-bank customer deposits	459.3	557.2	962.1	1,097.8
Total equity	54.4	62.5	95.3	100.0
FIGURES in per cent				
Capital adequacy ratio (BIS)	12.6	12.0	10.5	12.4
Return on equity (before tax)	17.7	19.3	18.3	16.4
Return on average total assets (before tax)	1.33	1.39	1.28	1.08
Costs covered by net non-interest income	74.2	49.8	67.0	66.2
Costs as a share of total assets	3.46	3.25	3.11	3.24
Earnings per share in tolar	689.9	909.6	1,087.0	1,259.8

EXCHANGE RATE (Bank of Slovenia mid rate at year-end)

	1999	2000	2001	2002
EURO 1= tolar	197.3	211.5	221.4	230.3
USD 1= tolar	196.8	227.4	250.9	221.1

SUPERVISORY BOARD MEMBERS

Chairman

mag. Anton Žunič

State Secretary
Ministry of Finance of the Republic of Slovenia, Ljubljana

Vice Chairman

Uroš Slavinec

President of the Management Board
Helios d.d., Domžale

Members

Herman Agneessens

Managing Director
KBC Bank & Insurance Holding Company N.V., Brussels

Frans Florquin

Managing Director
KBC Bank & Insurance Holding Company N.V., Brussels

Zvone Ivanušič

Advisor to the Management Board
Pozavarovalnica Sava d.d., Insurance Company, Ljubljana

mag. Igor Kušar

General Manager
Restitution Fund, Ljubljana

mag. Jože Lenič

President of the Management Board
Capital Fund, Ljubljana

Dirk Mampaey

Assistant General Manager Strategy and Expansion
KBC Bank N.V., Brussels

Victor Pastor

Director, Bank Equity & Financial Institutions
EBRD Bank, United Kingdom

doc. dr. Metka Tekavčič

Professor - Senior University Teacher
Faculty of Economics, University of Ljubljana

David Michael Truman

General Manager
K & H Life Assurance Co. Ltd., Hungary

Zvonko Ivanušič, Jože Lenič, Igor Kušar, Uroš Slavinec in Metka Tekavčič
were appointed on June, 27, 2001.

Representatives of KBC, EBRD and the Chairman Anton Žunič began their mandate on September 6, 2002.
All Supervisory Board members conclude their mandate within a four-year period.

CHAIRMAN'S STATEMENT



President of the Supervisory Board
Anton Žunič

NLB has successfully completed its privatisation program this year, by adopting a unique model allowing it to maintain its identity with a long history in the region, while strengthening its corporate governance and improving its business orientation. The shareholding structure of the Bank consists of the Republic of Slovenia (36 per cent), KBC (34 per cent), the European Bank for Reconstruction and Development (5 per cent), Slovene funds (10 per cent), and other Slovene investors (15 per cent).

The transition has been very smooth, reflecting the high level of professionalism and the strong support and commitment of both the new foreign shareholders and the Slovene owners. One of the key factors of the successful privatisation was the high level of professionalism of management and staff who represent the most valuable assets of the Bank.

A new Supervisory Board, representing the new shareholding structure, was elected by the General Assembly in September 2002. The Board consists of eleven distinguished professionals from Slovenia, KBC and EBRD. The members are: Mr. Anton Žunič (president), Mr. Uroš Slavinec (deputy president), Mr. Herman Agneessens, Mr. Frans Florquin, Mr. Zvone Ivanušič, Mr. Igor Kušar, Mr. Jože Lenič, Mr. Dirk Mampaey, Mr. Victor Pastor, Mrs. Metka Tekavčič and Mr. David Michael Truman.

The Supervisory Board appointed a five member Management Board reflecting the continuation of the success of the old management, the commitment of KBC, and the business strategy of NLB and the Group in Slovenia and in the region. The Management Board consists of: Mr. Marko Voljč (president), Mr. Andrej Hazabent, Mr. Pierre Van Keirsbilck, Mr. Matej Narat and Mr. Borut Stanič.

The Supervisory Board has already approved a system of corporate governance in line with international practice applicable for leading banking institutions. The Board has approved a detailed business strategy for the Bank and the Group, with focus on consolidation of some areas and expansion in others. The Board will also pay special attention with regard to the management information system and automation, quality of services, risk management, and product innovation.

The strategy of the Bank and the Group is to maintain its leading role in Slovenia and to increase its presence in the neighbouring region. The Bank will adopt measures to improve its competitive edge, by implementing a cost rationalisation program that would allow it to operate profitably with more competitive margins. Moreover, the Bank will focus on strengthening the relationship with its clients by providing high quality services and introducing new products.

The privatisation did not have any adverse effect on the performance of the Bank. At the end of the 2002, total consolidated assets (under Slovenian Accounting Standards) reached 1,981.0 billion tolar, an increase of 14.4 per cent over last year, while the Group's equity stood at 107.3 billion tolar, an increase of 3.1 per cent. Significant achievement in the year was the growth of non-interest income where commission and fees on the consolidated level witnessed an important surge of 49 per cent reflecting the various arrays of financial products offered by the Bank and the result of its focus on fee based activities.

The Bank continued its consolidation of its domestic and international operations. The market share of the Bank and its domestic daughter banks in Slovenia reached 38.7 per cent in 2002, and it is expected to increase in 2003 as the results of improving the relationship with clients and increasing of some capital investments.

The Bank has managed to dissolve its operation in New York, in accordance with the approved budget and strategy. On the other hand, the Bank is considering acquiring new banking institutions in the former Yugoslavia, and participating in a new banking venture in Bulgaria. The strategy behind the regional expansion is to improve the ability of the Bank to service its existing clients, and to operate in new markets where it has competitive advantages.

The Bank has already benefited from the participation of the new shareholders; most notably in introducing new financial products, obtaining long-term funding, and referring of new businesses throughout its network.

We understand the challenges that lie ahead, including those associated with the banking industry in general, and those pertaining specifically to NLB. We are confident that we can implement our business strategy in Slovenia and in the region successfully.



Tone Žunič
President of the Supervisory Board

STATEMENT OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER



President of the Management Board
Marko Voljč

NLB experienced a year of significant change in 2002. The business environment was as challenging as it has been for some years with increased competition and less favourable economic conditions. Against this background the NLB Group and Bank can report a solid performance in operations in a year that also saw the successful completion of privatisation, transfer of the domestic payments system to the banking sector, and further strengthening of relationships within the NLB Group that has led to improved synergies.

The Group reported profit before tax of 15.6 billion tolar (67.6 million euros) in accordance with Slovene Accounting Standards (SAS), and 24.7 billion tolar (107.4 million euros) in accordance with International Financial Reporting Standards (IFRS). Using the SAS financial statements, NLB Bank's earnings per share was 818 tolar per share in 2002 an increase of 4 per cent. The Group reported return on equity of 11.9 per cent and return on assets of 0.84 per cent again using SAS, and while these numbers were solid considering the operating environment, both were down on the previous year. At the Bank's annual general meeting in June 2003, the Supervisory Board will propose payment of a dividend of 327 tolar per share representing a 40 per cent pay out of attributable profits.

The key features on the business front included declining interest margins being offset by strong growth in non-interest income, and the commencement of a cost ratio-

nalisation program. Business volumes grew strongly during 2002 with total assets climbing to 1,981 billion tolar (8.6 billions euros) a growth of more than 14 per cent on the previous year. NLB maintained its market share of assets in the total banking system (38.7 per cent) with an increase in market share of the deposit sector (39.6 per cent) although there was a decline in market share in the lending sector (35.6 per cent), reflecting the very competitive pricing environment especially in corporate lending.

During 2002 credit quality remained a high priority reflected in 95 per cent of the total asset portfolio being classified in the highest grade A and B ratings. In the Bank's asset portfolio at the year-end total specific provisions covered over 100 per cent of doubtful and non-performing assets. The Group's equity measured in SAS grew to 107.3 billion tolar (466 million euros) and in IFRS to 118 billion tolar (511 million euros) by the end of December 2002. Capital adequacy levels of 11.5 per cent reflect efficient equity management and adequate provisioning levels against the Groups risks.

Within the NLB Group the Bank remains the largest component, however other Group companies continue to gain importance in the Group results. Further synergies are constantly being implemented and result in the creation of an additional competitive advantage for the Group. Almost all domestic subsidiaries reported profit growth in 2002 while

the performance of Tutunska Banka, Skopje, stood out amongst the foreign subsidiaries.

The privatisation process that took place during 2002 brought significant change to the ownership structure. The ownership profile now sees the Belgian banking and insurance group KBC as a new shareholder holding a 34 per cent stake in NLB while the State holds 35.7 per cent. The remaining 30 per cent are held by various institutional and private investors including the EBRD who holds 5 per cent and two Slovene Funds that also hold 5 per cent each.

The changes in the ownership have also brought about changes in the Supervisory Board and Management Board. KBC representation on the Supervisory Board has helped improve corporate governance and we are happy to have a broad range of international experience on board that definitely helps with the development of the Bank. The Management Board has expanded to five members and the new horizontal organizational structure sees the emergence of value generating centers allowing for more flexible and transparent operations. Each of the five centers is led by a member of the Management Board and this focus will also contribute to the cost rationalisation program thus providing a solid base for future growth.

The entry of our new key shareholder KBC will provide the Bank with the opportunity of more dynamic development and strengthen our competitive advantage. Our capital base has been strengthened and this is facilitating our goal to further expand to the markets of Southeast Europe. We anticipate that progress will be made in developing a presence in Montenegro and in Serbia thus adding to our portfolio of investments in banks in the region.

In our domestic market we are working together with KBC in exploring and developing new business areas and possibilities of enhancing profitability. In mid 2003 we plan to commence marketing new life assurance products through our first combined joint venture with KBC, NLB Vita (NLB Life). This year we also plan to launch asset management products through a newly established asset management company called NLB Skladi (NLB Asset Management). With the introduction of these new services our focus is to deliver on our strategy to grow and diversify business development opportunities.

Looking forward we see continued focus on preserving interest margins, developing non-interest income business

and seeking to actively manage the cost base. These three areas will be key to developing growth in profitability and specific programs are in place to address each area. Proactive management of the interest rate environment is already taking place as we see rapid convergence between the current Slovene tolar interest rates and euro rates as ultimate entry to ERM2/EMU is a priority for the Slovenia. The introduction of new services as well as the upgrading and development of modern distribution channels will add to the growth in non-interest income. In cost management we have set challenging targets for 2003 in both investment and operational cost areas, which we expect, will result in improved efficiencies this year. Attention will also be focused on improving and expanding existing strategic areas of operations including leasing, factoring and forfeiting.

A key challenge in recent years has been in managing the significant investment in information technology that is critical for the long-term efficiency of the Group's operations. During 2002 progress has been made with several new technologies introduced in the framework of the Sigma project for corporate and retail services. This will facilitate the streamlining of operations and create further synergies within the Group as the process continues in 2003.

The Slovene economy grew by 3.2 per cent, once again displaying its resilient character as it managed to mitigate the impact of reduced global economic activity by expanding to the faster growing markets of Southeast Europe. Formal entry to the European Union in May 2004 is not expected to bring major changes either for the economy or the banking sector as Slovenia has already made significant strides in its convergence with EU.

Against this macroeconomic background, the strategic direction of the NLB Group is to become a leading banking and financial group in the region of central and Southeast Europe. In setting out our strategic targets the basic principle of maximizing shareholder value is at the core as we believe this will help us increase the satisfaction of all stakeholder groups including our customers, our employees and our owners. The five principal strategic objectives of the NLB Group are based on strengthening and expanding our position and presence on the markets of the region and focus on growth in profitability and efficiency.



From right to left: Gašper Jože Filipič, Senior Director, Corporate Banking I Central Slovenia, Deputy Member of the Management Board; Milan M. Cvikel, Chief Financial Officer, Deputy Member of the Management Board; Marko Voljč, President of the Management Board and CEO; Maksimiljan Janez Senčar, Senior Director, Deputy Member of the Management Board, Milan Marinič, Secretary General, Deputy Member of the Management Board; Matej Narat, Member of the Management Board; Borut Stanič, Member of the Management Board; Dušan Gale, Chief Information Officer, Deputy Member of the Management Board; Tomaž Košir, Senior Director, Branch Network, Deputy Member of the Management Board; Andrej Hazabent, Member of the Management Board; Pierre Van Keirsbilck, Member of the Management Board.

The five objectives are:

- Deliver a return on equity of the Group in excess of the average for the Slovene banking sector;
- Expand operations to achieve a total volume of operations of 20 billion euros by 2006. The Group's goal is to have a presence of 10 to 15 percent market share in the target countries in the region;
- Maintain the leading position in the Slovene market and develop market segment strategies for specific sectors.
- Improve efficiency by reducing the Group's cost/income ratio to 58 per cent by 2005 and 55 per cent by 2007;
- Develop the Group to be a leading financial services group in the region, not just providing banking services but also insurance related business, asset management business, leasing, factoring and forfaiting.

Finally I believe it is critical to recognize the importance of the contribution made by our employees in the past year. Despite the significant challenges presented by all the changes taking place, employees across the Group have once again demonstrated resilience and enthusiasm in delivering with quality and reliability. We are now focusing on developing customer service and sales as key priorities and we also strive to increase the mobility of people within the Group implementing a vision of creating a uniform organisational culture. I would like to thank all our man-

agement and staff across the NLB Group, for the significant contribution made in the past year and emphasise that NLB is keen to remain the employer of "preferred choice".

I would like to express thanks to all our loyal customers who have trusted us with their business in the last year and I would also express my gratitude to NLB's Supervisory Board for the clear and firm support given to the Bank's and Group's development strategy.

I invite you to enter the new era with even greater enthusiasm so that we can work together to build the NLB Group into a leading financial institution in the region of Southeast Europe.

Marko Voljč

President of the Management Board and CEO

FINANCIAL REVIEW OF NLB GROUP AND NLB IN 2002

INTRODUCTION

The financial review of operations presents an analysis of the financial results and volume of operations of NLB Group and NLB in 2002. The financial review is based on audited financial statements of NLB and audited consolidated financial statements of NLB Group under Slovene Accounting Standards ('SAS'). Notes to the SAS financial statements are presented on pages from 45 to 137.

As at January 1, 2002 new SAS were applied. For the purpose of comparable analysis between 2001 and 2002 financial results, the 2001 data is adjusted to the new SAS.

Data or figures with additional explanation named 'on comparable basis' refers to comparison were daughter banks that where fully merged into NLB d.d. in October 2001 assume them as a part of NLB from the beginning of 2001.

In the consolidated statements the explanation named 'on comparable basis' refer to the exclusion of LHB Group and Tutunska banka in the 2002 financial results. These were consolidated for the first time into NLB Group at the end of 2001 and consequently where not included in the Group's income statements in that year.

NLB and NLB Group marks 2002 with a sound financial performance

The year 2002 was noted for an increasingly competitive environment, declining interest rates and a less favourable macro-economic environment due to a gradual slowdown in economic activity. Consequently there was less demand for lending products from the personal and corporate sectors and a slower growth in net interest income due to declining margins.

Despite this background the NLB Group and the NLB Parent Bank turned in a solid performance in 2002 and in particular reflected their growing interdependence on each other. Positive synergetic effects are expected to continue in the future resulting from further integration and co-operation within the Group.

In the period from 1 January to 31 December 2002, NLB Bank recorded a pre-tax profit of 12.6 billion and ended the financial year with a balance sheet totalling 1,619.2 billion tolar under SAS.

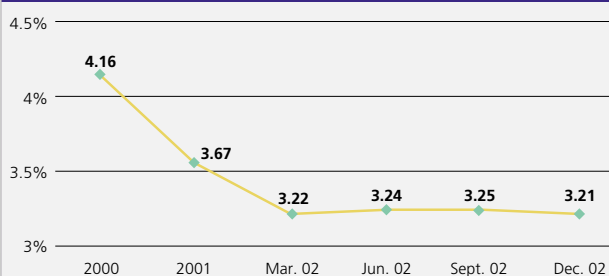
With 1,981.0 billion in total assets, NLB Group's profit for 2002 totalled 15.6 billion tolar before tax and minority interests under SAS.

Considering the competitive and economic environment, NLB Group and the Bank recorded sound results in 2002 that were influenced by the following three key factors:

- declining interest margins,
- significant increase in non-interest income,
- the beginning of a cost management process.

NLB achieved all its growth targets in balance sheet growth in 2002 with the exception of growth in lending to the non-banking sector. Less favourable economic conditions weakened demand in the private sector, which inevitably limited growth in the credit portfolio.

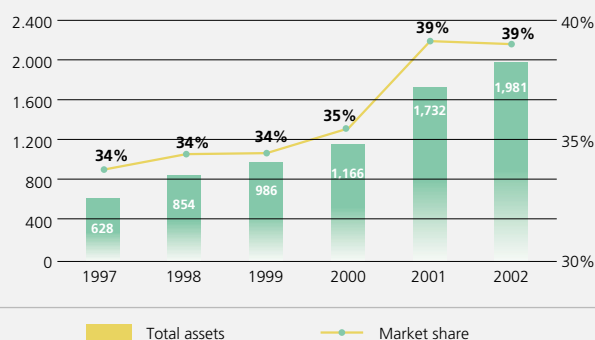
Changes in the net interest margin



However, the Group maintains its largest market share in total Slovene banking system assets.

The Group's total assets and its domestic market share

in billion tolar



NLB Group experienced a decline in interest margin in the face of increased competition resulting in pressure on growth in net interest income. To manage the impact of the above pressures, NLB introduced a number of measures and programmes, focused on managing income growth and cost management in 2002:

- Adapting a flexible interest rate policy, focused on maximising profitable growth through interest rate management of both loans and deposits.
- The programme of increasing non-interest income represents a cornerstone of a continued sound operation of NLB and NLB Group. The aim of the programme is to enhance non-interest income, to compensate for the pressures on growth in interest income.
- A more aggressive marketing approach, that required more intensive activity in introducing a wide range of customised banking products and services focused on specialised segments, as well as development and improvement of state-of-the-art distribution channels.
- The cost reduction programme provides for restricting the increase in expenses and is aimed at reducing the costs of materials, fixed assets, maintenance and services by stepping up control, and by staff reduction and restructuring.
- Disinvestment programme, which will contribute to more effective operations and partially offset the restricted investment activity.
- The introduction of a new, less hierarchic organisation structure at the beginning of 2003 will facilitate a success-

ful implementation of the cost reduction programme with a more flexible and more transparent operation in five business areas of the Bank. Each business area is headed up by an individual member of the Management Board. It also provides for the facility of measuring performance and remuneration of NLB's top management.

Within the Group, NLB and members of the Group are becoming increasingly interdependent and this has an increasingly significant positive influence on the Group's results. Going forward, mutual co-operation will lead to the strengthening of synergies and result in the Group's additional comparative advantage.

Trends in the operation of Group members may be summarised in three points:

- Among the Groups' domestic banks, the financial results of almost all banks in Slovenia in 2002 improved on 2001.
- Among Groups' foreign banks, the solid performance of Tutunska banka stood out.
- Results of other affiliates are in line with target.

VOLUME OF OPERATIONS OF NLB GROUP AND NLB

Total assets

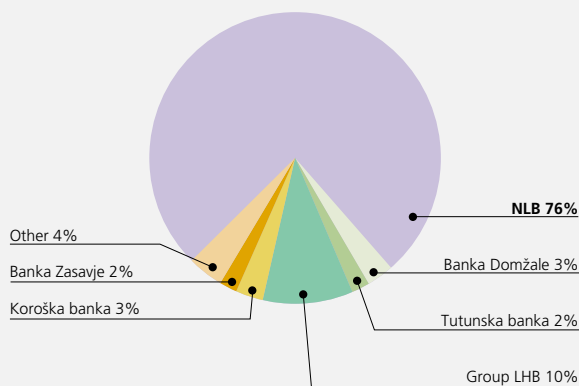
The Group's total assets as at 31 December 2002 were 1,981.0 billion tolar, which represented a 249.1 billion tolar or 14.4 per cent increase on 2001.

Table 5: Main asset items in the Group's and NLB's balance sheet

IN BILLION TOLARS	NLB Group			NLB		
	31.12.2001	31.12.2002	Growth in %	31.12.2001	31.12.2002	Growth in %
Total assets	1,731.9	1,981.0	14.4	1,376.7	1,619.2	17.6
Loans to banks	143.7	153.9	7.1	113.2	131.9	16.5
Loans to non-bank customers	820.0	902.4	10.0	635.4	704.1	10.8
Securities	547.9	724.2	32.3	436.5	601.2	37.7
Deposits and borrowings from banks	311.3	324.8	4.3	193.5	210.4	8.7
Deposits and borrowings from non-bank customers	1,170.5	1,319.8	12.8	979.5	1,118.6	14.2
Debt securities	22.6	76.8	239.0	22.1	76.4	245.0
Capital	104.1	107.3	3.1	104.6	112.6	7.6
Capital including minority interest	129.4	132.1	2.1	-	-	-

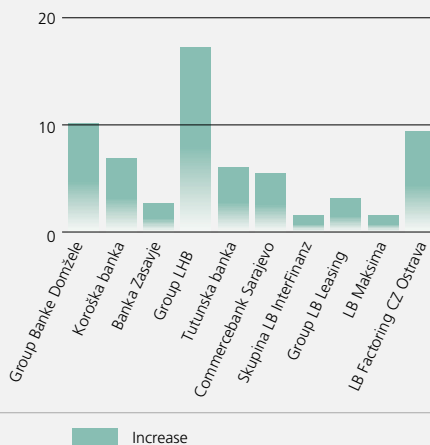
The NLB Parent Bank remains the dominant part of the Group with a share in total assets of 76 per cent. The shares of other major affiliates are shown in the following chart:

Share of main NLB Group members in Group balance sheet in 2002

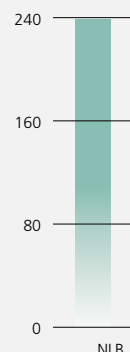


As at 31 December 2002, NLB total assets amounted to 1,619.2 billion tolar up 17.6 per cent on the previous year. The key factor of increase in the Bank's total

Absolute increase of balance sheet of main Group members in 2002 compared to 2001 in billion tolar



Absolute increase of NLB balance sheet



assets was the increase in customer loans and securities, while liability growth was influenced by the growth in customer deposits.

Asset activities

NLB and other affiliated banks within the Group experienced similar levels of growth. NLB Group's balance sheet in 2002 comprises of 45.6 per cent in loans and 36.6 per cent investments in securities.

The Bank's balance sheet structure by geographic areas shows the focus on the Slovene market with over 88 per cent, while EU and ex - Yugoslavia markets present around 10 per cent of the balance sheet.

Loans to non-bank customers

The customer lending activity of NLB Group totalling 902.4 billion tolar showed a 10 percent increase in the year. The parent bank accounts for 78 per cent of the loan portfolio. Affiliated banks continue to contribute to growth where LHB Bank has the biggest volume of customer loans after the Bank.

Table 6: The Bank's Balance sheet structure by geographic areas in 2002

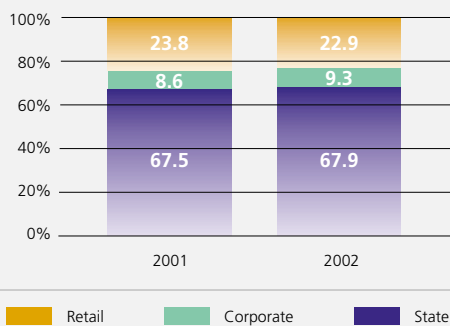
	Slovenia	Abroad	European Union	Countries of former Yugoslavia	Others
IN PER CENT					
Balance sheet					
Loans to banks	11.7	88.3	76.2	5.0	7.0
Loans to non-bank customers	95.4	4.6	0.6	0.7	3.3
Securities	95.2	4.8	2.6	0.0	2.3
Long-term investments in capital	66.6	33.4	24.7	2.5	6.2
Other Assets	99.2	0.8	0.6	0.0	0.1
Total assets	88.1	11.9	8.1	0.8	3.0
Deposits and borrowing from banks	32.3	67.7	65.1	0.0	2.5
Deposits and borrowing from others	99.8	0.2	0.1	-	0.1
Debt Securities	100.0	-	-	-	-
Subordinated liabilities	-	100.0	100.0	-	-
Total capital	100.0	-	-	-	-
Other Liabilities	90.2	9.8	1.8	6.1	1.9
Total liabilities	88.5	11.5	10.8	0.3	0.4
Difference	-0.5	0.5	-2.6	0.5	2.6

The volume of customer loans of Commercebank and Tutunska banka grew by more than 50 per cent. NLB loans grew by 10.8 per cent with all business client segments recording growth.

The largest part of the Group's customer loan portfolio is loans to corporates totalling 651.9 billion tolar and this sector grew by 61.3 billion or 10.4 per cent in the past year.

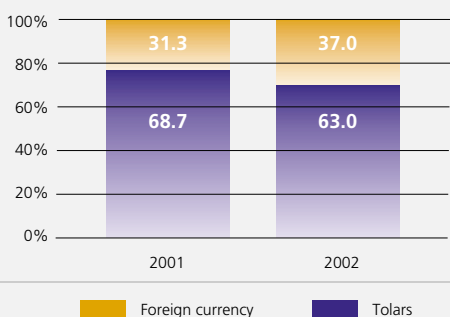
There was a slower growth in lending to households in 2002, with just a 5.3 per cent growth. This sector is expected to pick up with the Bank taking a series of measures in proactive marketing, including bridging loans for customers participating in the national housing construction scheme.

Structure of customer loans by business segments



The volume of public sector lending is the smallest part of the customer loan portfolio however it recorded the highest growth rate of 18.1 per cent. We however see a shift of the public sector from borrowing based on conventional banking products to sources of finance through issuing securities. NLB's balance sheet reflects this with the purchase of securities issued mainly by the Ministry of Finance and the Bank of Slovenia.

Currency structure of customer loans

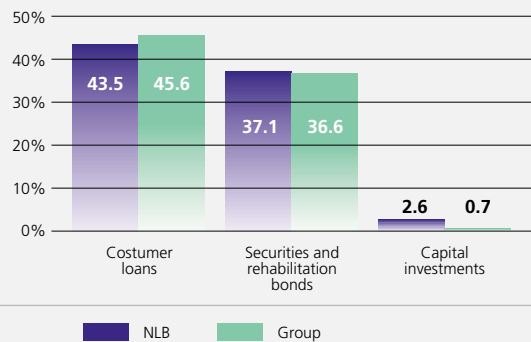


The currency structure of loans at the end of 2002 shows a growing trend in demand for foreign currency loans with more favourable financing costs.

Investments in securities and other investments

The structure of the balance sheet by asset type changed as the share of investments in securities has increased whereas the percentage of loans and equity investments has decreased.

Share of main investment activities in total assets in 2002



The Group's investment in securities rose by more than 30 per cent and at the end of the last year and totalled 724.2 billion tolar. Investments in securities of NLB showed a significant increase to 601.2 billion tolar, a 37.7 percentage increase. The increase mainly reflects the increase in investments in Bank of Slovenia's treasury bills.

Equity investments recorded a 3.3 billion tolar increase, totalling 41.6 billion tolar. The slowdown in growth of equity investments in affiliated and non-affiliated entities is in line with the Bank's policy.

Sources of funds

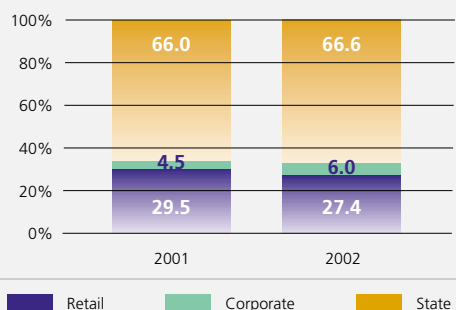
In 2002, the NLB Group had a successful performance in financing its investment activity through good growth in deposits, issuing debt securities and maintaining capital.

Customer deposits

Customer deposits and borrowings making up 67 per cent of funding remain the primary source of funds. With 1,319.8 billion tolar at year end this is a 12.8 per cent increase primarily due to two reasons: a wide range of deposit products and the impact from the sale the Lek pharmaceutical company to Novartis that provided additional savings to the market.

In the structure of the Parent Bank's total liabilities customer deposits make up 67.8 per cent, while the other main sources of funds accounted for considerably less, borrowings 11.2 per cent and other deposits 5.2 per cent. Although lower in volume in absolute terms, debt securities issued recorded the highest increase in 2002.

Structure of customer deposits by business segments



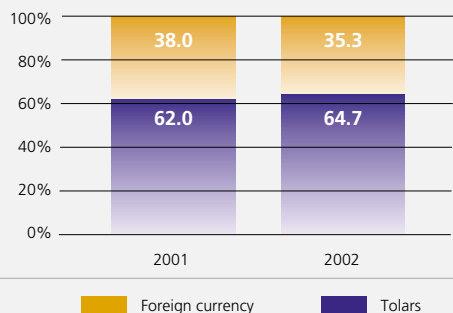
By the year-end, the Group's customer deposits increased by 13.5 per cent and totalled 1,260.3 billion tolar. This included:

Deposits of households and sole traders totalling 839.4 billion tolar grew by 14.6 per cent the share of these deposits in the structure of total customer is 66.6 per cent and accounted for 42.4 per cent of the Bank's total liabilities.

Deposits of the corporates and other financial institutions account for 27 per cent of total customer deposits and these grew by 5.4 per cent.

Public sector deposits rose by 6 per cent and totalled 75.4 billion tolar. The balances of these government deposits fluctuate from month to month.

Currency structure of customer deposits



The currency structure of deposits shows that the share of foreign currency deposits is decreasing, with the higher Slovene tolar interest rate environment triggering the demand for tolar deposits.

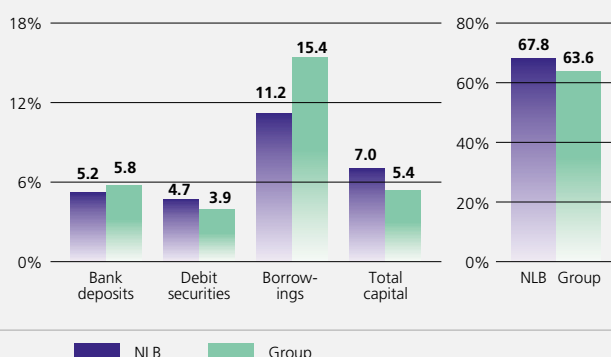
Other sources of funds

The highest increase among other sources of funds was debt securities, which showed a twofold increase and totalled 76.8 billion tolar. Their share in the structure of sources of funds increased from 1.3 per cent to 3.9 per cent. The Bank's debt securities increased by 54.3 billion tolar and more than tripled on the year-end 2001 and now make up 4.7 per cent of funding. Following the sale of Lek to Novartis, NLB issued three series of tolar-denominated bonds and 15-month certificate of deposits.

The Bank and the Group also obtained borrowings. The Bank's increase for 37 billion tolar compared to last year, included a major subordinated loan of 90 million euros and a 95 million euros syndicated loan in November 2002. Nevertheless, there was a slight drop in the total Group's exposure as a result of smaller amount of borrowings with banks and other customers.

Structure of main sources of funds

Share of customer deposits



In the structure of the NLB sources of financing, the increase in securities and borrowings was offset by a decline in deposits by banks and capital.

Table 7: The Group's balance sheet maturity structure

IN BILLION TOLARS	Total Assets		Total Liabilities		Liabilites - Assets
	2002	in %	2002	in %	2002
Up to 1 month	480.5	24.3	742.7	37.5	262.2
1 month to 3 months	281.9	14.2	239.0	12.1	-42.9
3 months to 1 year	452.7	22.9	498.0	25.1	45.3
1 year to 5 years	508.4	25.6	315.1	15.9	-193.3
over 5 years	257.5	13.0	186.2	9.4	-71.3
Total	1,981.0	100.0	1,981.0	100.0	0

The balance sheet maturity structure reflects efficient liquidity management with adequate investment financing, based primarily on short - term sources of funds.

Off-balance sheet transactions

The NLB Group's volume of risk off-balance sheet transactions rose by more than twofold as a result of an increase in all major off-balance items. The biggest increase was in transactions in derivative financial instruments.

The total volume of NLB risk off-balance sheet amounted to 325.4 billion tolar at year-end influenced mainly by the larger volume of derivatives of which more than 90 per cent were swap transactions with the Bank of Slovenia.

Capital and capital adequacy

The Group's total capital reached 107,3 billion tolar at 2002 year-end, up by 3.1 per cent, mainly due to growth in revenue reserves from profit. The supervisory board confirmed the appropriation of net profit to reserves in the amount of 2.65 billion tolar. Dividend pay-out is described on page 20.

The NLB Group ended the financial year 2002 with a capital adequacy ratio of 11.5 per cent. This compares with 11.1 per cent in 2001 and the increase is largely attributable to obtaining a subordinated loan of 90 million euros.

Table 8: Capital adequacy ratio of the NLB Group and NLB according to the Bank of Slovenia's methodology and BIS guidelines

IN PER CENT	31.12.2001		31.12. 2002	
	Bank of Slovenia	BIS	Bank of Slovenia	BIS
NLB Group	11.1	12.8	11.5	13.7
NLB	9.1	10.5	10.7	12.4

As at 31 December 2002, the Bank's risk capital totalled 136.4 billion tolar, representing an almost 13 per cent increase on 2001. This had the effect of increasing the capital adequacy ratio and demonstrates effective capital management, ensuring more than adequate provision with regard to the risk level in the Bank's operations considering credit, currency and market risks.

According to BIS standards the capital adequacy ratio improved to 13.7 per cent, compared to 12.8 per cent in the previous period.

Ownership structure

At the year-end the Bank's nominal capital amounted to 15,364,030 thousand tolar, which represents 7,682,015 ordinary shares with a nominal price of 2,000 tolar. They were held by 959 shareholders of which 92.2 per cent was held by the 10 largest shareholders.

Table 9: The largest NLB Shareholders as at 31 December 2002

Name	No. of shares	Share (in%)
1 Republic of Slovenia	2,743,284	35.7
2 KBC Bank N.V., Brussels	2,611,885	34.0
3 Slovenska odškodninska družba d.d., Ljubljana	388,113	5.1
4 Kapitalska družba d.d., Ljubljana	384,490	5.0
5 European Bank for Reconstruction and Development	384.101	5.0
6 Poteza naložbe d.o.o.	227,570	3.0
7 NFD 1 investicijski sklad d.d.	104,781	1.4
8 Triglav steber 1 pid d.d.	103,445	1.3
9 Atena PID d.d.	66,925	0.9
10 Zavarovalnica Triglav d.d.	63,904	0.8

KEY TRENDS IN NLB GROUP AND NLB PROFIT PERFORMANCE

Profit before taxation

The NLB Group made a pre-tax profit of 15.6 billion tolar for the year 2002, an 8.6 per cent decrease in comparison to the

previous year. This is however a solid result considering the challenging macroeconomic environment and the newly formed additional specific Group provisions totalling 0.86 billion tolar.

Table 10: Key profit and loss account items of the NLB Group

	NLB Group			NLB		
	1.1.-31.12. 2001	1.1.-31.12. 2002	Growth in %	1.1.-31.12. 2001	1.1.-31.12. 2002	Growth in %
IN BILLION TOLARS	2001	2002	in %	2001	2002	in %
Net interest income	49.6	53.0	6.9	31.5	35.7	13.2
Net income from investments	7.1	9.9	39.7	6.0	11.3	88.5
Net fees and commissions	18.5	27.5	48.6	12.5	20.9	67.7
Net income from financial operations	0.7	-2.6	-	1.3	-2.2	-
Net other income	0.7	2.2	231.9	1.7	2.0	17.6
Net non-interest income	27.0	37.0	37.1	21.5	32.0	48.8
Total costs	50.7	62.1	22.4	34.3	46.1	34.5
Profit before tax and Provisions	25.9	27.9	7.8	18.7	21.6	15.0
Net provisions	8.9	12.4	39.5	6.6	9.0	35.9
Profit before tax	17.0	15.6	-8.6	12.1	12.6	3.7
Tax	8.8	8.4	-4.2	6.1	6.3	3.6
Minority interest	0.9	1.4	54.0	-	-	-
Net profit for the period	7.3	5.7	-21.8	6.1	6.3	3.7

Profit before tax and provisions increased by 7.8 per cent however due mainly to the increase in provisions and tax, the net profit after tax was 21.8 per cent lower than in 2001. On a comparable basis where LHB and Tutunska banka are excluded the reduction would be 18 per cent.

The Parent Bank recorded 12.58 billion tolar in profit before tax. Almost all the Group's subsidiary banks showed an increase in profit. LB Maksima, investment fund, recorded a high increase of profit due to favourable movements in capital market prices.

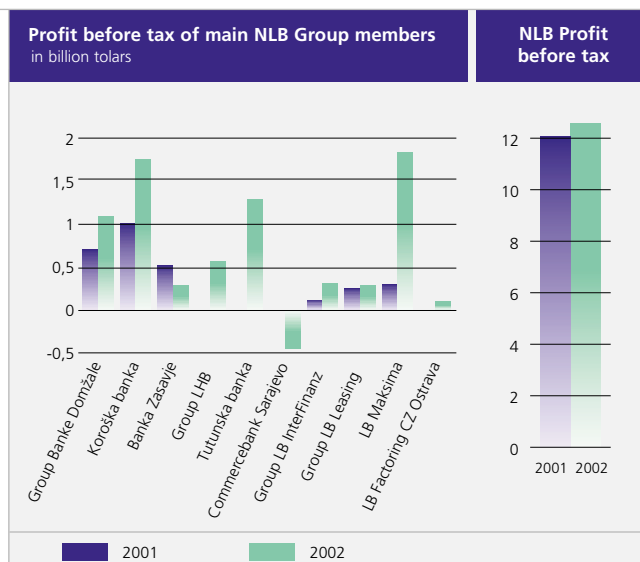
Taxes on profit amounted to 8.4 billion tolar and exceeded the 50 per cent cap due to the methodology of tax calculation being different to the accounting calculation of profit. The effective tax rate of the Bank is the highest possible due to the balance sheet tax levy and is significantly higher than the tax rates applied to subsidiaries.

Dividends payout

In June 2002, at the NLB Annual Shareholder meeting, a dividend payment of 3.3 billion tolar was declared, representing 45 per cent of payout ratio.

In June 2003 the Bank's Supervisory Board will, on the basis of Shareholder's agreement, propose a 40 per cent net

profit dividend payout, which presents a dividend payment of 2,512.1 million tolar or 327.00 tolar per ordinary share.



Net interest income

The NLB Group net interest income for the year was 53.0 billion tolar. A key feature in interest income is the decline in interest margins which is an issue facing the entire banking sector.

The Bank's share in the consolidated net interest income is 67.3 per cent set the pace for the increase in the net interest income of the NLB Group. The Bank's interest margin was 3.21 per cent a decline of 0.46 percentage points on the same period in the previous year. The Bank's is taking action in its interest rate policy to offset the declining interest margin.

11.3 billion tolar up by twofold with a strong performance in revenues from interests from market securities.

Net income from financial operations of the Group showed a loss of 2.6 billion tolar of which there was a loss of 2.2 billion tolar in the Bank. The main reasons for this include net expenses relating to swap contracts with the Bank of Slovenia amounting to 1.9 billion tolar.

Net non-interest income

The low growth in net interest income has been offset by a more rapid increase in non-interest income that rose by 37.1 per cent and totalled 37.0 billion tolar in the Group.

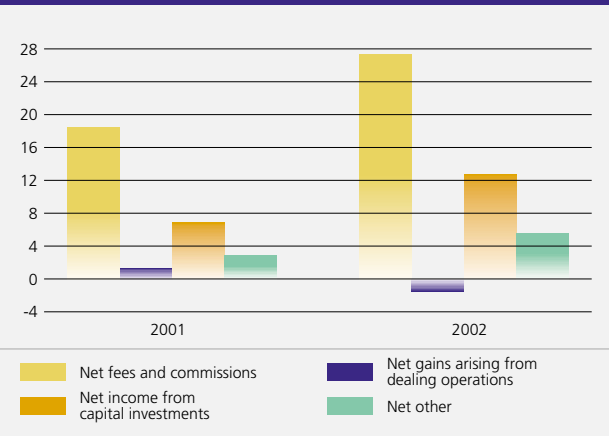
Operating expenses

NLB Group's expenses increased by 22.4 per cent, however on a comparable basis, excluding LHB and Tutunska banka the Group's expenses increased by 8.5 per cent.

The main components of the Group's expenses were labour costs and which rose by 22.5 per cent, or 12 per cent on a comparable basis and costs of materials and services that rose 29.8 per cent or 24 per cent on a comparable basis.

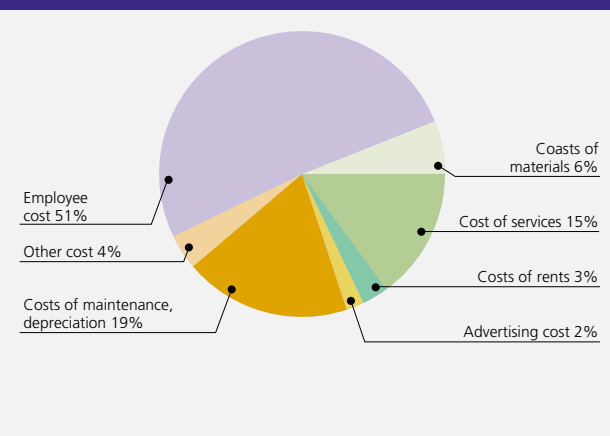
In the Bank labour costs amounted to 23.1 billion tolar, representing a 36.5 per cent increase reflecting primarily an increase of 994 employees due to the consolidation of the three daughter banks. Other operating expenses totalled 22.9 billion tolar.

Net non-interest income structure
in billion tolar



Net fees and commissions income of 27.5 billion tolar grew by 48.6 per cent, while income from investments increased for 40 per cent to 9.9 billion. A major part of net income from investments is interest income from securities held for trading totalling of 8.2 billion tolar. The remaining income are capital investments income and dividends from securities held for trading.

Structure of total costs in 2002



Most of the non-interest income is generated in the Parent Bank, with fees and commissions in the twelve months totalling 20.9 billion tolar or an 8.4 billion tolar increase. Key features include an increase in income from domestic payments totalling 2.1 billion tolar and intermediation administrative services in the amount of 6.6 billion tolar. Net fees and commissions from intermediation services grew mainly due to sale of Lek to a pharmaceutical company Novartis. Net income from capital investments totalled

OPERATING RATIOS

The key operating ratios confirm trends of the Group's and the Bank's sound operations during 2002. The year on

year performance ratios and cost-efficiency ratios are not directly comparable.

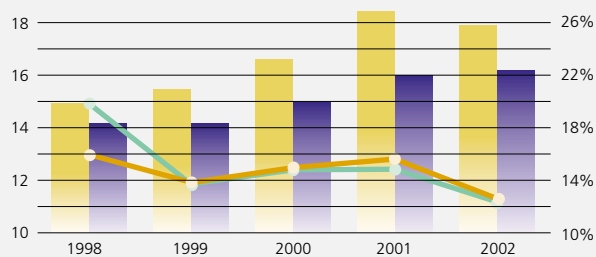
Table 11: Key operating ratios of the NLB Group

IN PER CENT	NLB Group		NLB	
	31.12.2001	31.12.2002	31.12.2001	31.12.2002
Profitability of performance				
Return on average equity (ROE) before tax	14.9	11.9	14.3	12.1
Return on average total assets (ROA) before tax	1.18	0.84	1.14	0.86
Earning per share in tolar	-	-	788	818
Economy of operations				
Costs covered by net non-interest income	53.2	59.6	62.7	69.3
Costs as a share of total assets	3.50	3.34	3.16	3.19
Costs as a share of net income	66.2	69.0	64.6	68.1
Capital ratios				
Capital adequacy ratio due to Bank of Slovenia	11.1	11.5	9.1	10.7
Capital adequacy ratio due to BIS	12.8	13.7	10.5	12.4

The return on average equity before taxation reduced to 11.9 per cent due to lower profit before tax compared to 2001, which was the result of provisions increase of 39.5 per cent.

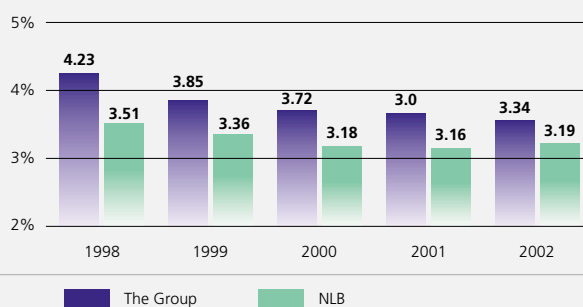
Return on average assets declined to 0.84 per cent reflected in the lower profits and growing balance sheet.

Profit before tax and return on average equity
in billion tolar



On the basis of cost efficiency ratios we defined the Group's performance as solid. In cost-efficiency ratios, the Group's expenses to average assets ratio decreased for 3.34 per cent demonstrating the operational cost efficiency despite the increase in expenses.

Total costs as share of average total assets



KEY FINANCIAL DATA ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The financial performance of the Group and the Bank under International Financial Reporting Standards (IFRS) is presented below. For the notes to the audited consolidated finan-

cial statements refer to the pages from 139 to 195 The reconciliation table of profit, total assets and equity between IFRS and SAS are explained on the pages from 187 to 189.

Table 12: Key trends in balance sheet in accordance with IFRS

IN BILLION TOLARS	NLB Group		NLB	
	31.12.2001	31.12.2002	31.12.2001	31.12.2002
Total assets	1,722.3	1,972.0	1,355.7	1,591.4
Loans to bank customers	144.1	151.6	114.1	130.0
Loans to non-bank customers	818.4	899.9	636.8	705.7
Securities	556.2	692.0	440.2	607.5
Borrowing and deposits from banks	311.3	324.8	193.5	210.4
Borrowings and deposits from non-bank customers	1,170.5	1,319.8	979.5	1,118.6
Capital	109.7	117.7	95.3	100.0
Capital including minority interest	137.4	145.2	-	-

The NLB Group's total assets totalled 1,972.0 billion tolars (8.6 billion euros) at the year-end 2002, representing a 14.5 per cent increase.

The Bank's total assets according to IFRS were 1,591.4 billion tolars (6.9 billion euros) and increased by 235.7 billion tolars on 2001.

Table 13: Key trends in profit and loss account according to IFRS

IN BILLION TOLARS	NLB Group		NLB	
	1.1.-31.12.2001	1.1.-31.12.2002	1.1.-31.12.2001	1.1.-31.12.2002
Net interest income	52.9	59.8	34.8	42.9
Net non-interest income	30.9	43.9	23.4	32.1
Total costs	51.9	65.4	35.0	47.8
Net provisions	10.3	15.0	8.8	11.2
Profit before tax	23.6	24.7	14.4	16.0
Tax	8.7	8.6	6.0	6.3
Minority interest	1.4	1.9	-	-
Net profit for the period	13.5	14.2	8.4	9.7

The Group's net profit after tax of 14.2 billion tolars (61.7 million euros) in accordance with IFRS increased by 5.5 per cent. In addition to operational non-interest income growth, the increase in profits was influenced by the effects of the sale of LBS bank, by the valuation of securities at market value and provisions created for general banking risks. These items contributed to the difference between the profit of NLB Group under SAS and under IFRS, since profit under IFRS was 8.6 billion tolars higher.

The Bank's profit after taxation according to IFRS increased by 15.9 per cent and amounted to 9.7 billion tolars (42.0 million euros). The reasons for a 3.4 billion tolars higher after-tax profit according to IFRS were the following:

- The market value of securities and derivative financial instruments compared to book value as at 31 December 2002, which is not included in the Bank's income statement according to SAS, but is using IFRS.
- The creation of additional provisions for general banking risks and specific provisions for non-credit risks which do not impact on the income statement in IFRS.
- The exchange difference resulting from the equity investment in LBS was transferred from reserves to the profit and loss account on the sale of LBS bank in the IFRS financial statements.
- Profit according to IFRS is reduced by revenues according to the equity method which is not shown in financial statements in IFRS.

Table 14: Performance ratios according to IFRS

IN PER CENT	NLB Group		NLB	
	31.12.2001	31.12.2002	31.12.2001	31.12.2002
ROE before tax and minority interest	20.1	17.5	18.3	16.4
ROA before tax	1.64	1.34	1.28	1.08
Cost covered by net non-interest income	59.6	67.2	67.0	66.2

NLB GROUP AND NLB RISK MANAGEMENT

The goal of the Group's Risk management is to sustain and continue stable performance and to maintain the highest asset quality. The Group achieves these goals by uniformed and constant ex ante and ex post assessment and monitoring of clients and by using the standard Group risk management tools (migration matrices, diversification, Value at Risk, Marking to Future). The use of these tools improves asset quality, structural liquidity, and performance ratios, enables early warning signals and minimises exposure of the Group to all types of risks.

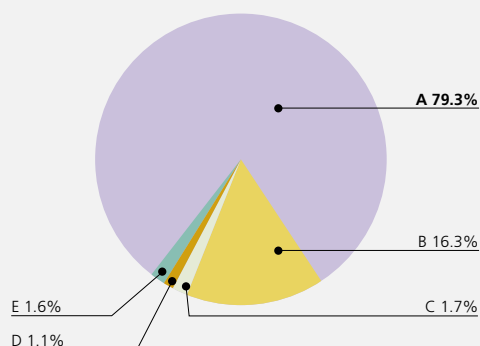
The Bank and subsidiaries respect all Bank of Slovenia requirements, but subsidiaries must also comply with standards of internal credit risk system of NLB as defined in the contracts, which are already executed. The Bank has therefore centralised the role in controlling the assumptions of different risks, regarding the data structure, methodologies adopted and reporting. The Bank, in cooperation with subsidiaries, also prepares credit and market risks policies, sets strategies and places limits within the decision making process.

CREDIT RISKS MANAGEMENT

The Group reviews credit risks from three aspects: specific counter-party risk, portfolio risk and country risk. Credit risk management includes constantly analysing the loan portfolio and providing credit analysis by considering adverse selection and moral hazard problems regarding client behaviour before and after signing of the contract.

In 2002 the Bank strengthened its control of banking and financial subsidiaries abroad by reviewing the quality of their portfolio on a quarterly basis to insure uniform and standard practices in grading and provisioning. In case of differences, mainly due to different country regulations and practices, these are adjusted to Bank of Slovenia regulations.

Structure of NLB Group loan portfolio by credit risk grade in 2002



The credit portfolio includes loans to corporate, retail, and the public sector, exposures to other banks and financial institutions, corporate bonds and other credit risk bank products, such as guarantees, derivative instruments etc. Part of the portfolio (capital investments, investments in securities etc.) is evaluated under fair value, while the quality of the portfolio is analysed by classifying clients and assets into five credit grades (A to E), A being the highest quality credit risk. The "performing" part of the total Group portfolio (A and B) represents 93.5 per cent of the banking group and 95.6 per cent in NLB. The credit portfolio of the Group amounted to 1.642 billion tolar of which 1.218 billion tolar is the portfolio of the NLB.

Table 15: Credit rating migration matrix weighted with exposure for year 2002

to \ From	Rating A	Rating B	Rating C	Rating D	Rating E	Total exposure (mio SIT)	Average rating
Rating A	95.78%	4.00%	0.18%	0.03%	0.01%	1,529,082	4.95530
Rating B	17.76%	79.39%	2.29%	0.43%	0.12%	210,111	4.14238
Rating C	5.97%	39.78%	43.90%	9.29%	1.06%	23,366	3.40320
Rating D	0.02%	18.06%	27.36%	43.83%	10.72%	21,305	2.52828
Rating E	0.00%	0.00%	0.00%	0.03%	99.97%	17,153	1.00031

The tables show a variant of migration matrix weighted with exposure, which also reflects the size of migrating exposure. The computation of average rating is enabled by means of assigning numerical codes to credit rating grades (A=5, B=4, C=3, D=2, E=1). The average rating indicates the credit quality of the Bank's clients with a particular rating grade after one year.

The conclusions from table 15 are as followed:

- Rating A shows large stability without migrations,
- Rating B is migrating in a substantial part to rating A.
- The same procedure goes for ratings C and D, which account for relatively small share in the structure of the portfolio.

- Rating E is traditionally stable in the negative sense.
- By comparing year 2002 with weighted averages, we can drive the following conclusion:
- Clients have a much smaller chance of staying stable in the same rating group compared to the weighted average for several years.
- There are more migrations from worse to better rating groups (ex. from C to A and B) compared to weighted averages.
- NLB is exposed the most towards best-rated clients (A and B). Exposure towards worse rating groups (C, D and E) is relatively small; in the last year it was twice as low relatively from the weighted average for several years.

Table 16: Average credit rating migration matrix weighted with exposure (1995 - 2002)

to \ From	Rating A	Rating B	Rating C	Rating D	Rating E	Total exposure (mio SIT)	Average rating
Rating A	97.83%	1.99%	0.13%	0.03%	0.01%	7,478,561	4.97594
Rating B	15.40%	80.68%	1.96%	1.76%	0.20%	1,283,511	4.09322
Rating C	0.69%	27.95%	61.26%	8.96%	1.15%	243,696	3.18067
Rating D	2.70%	14.98%	15.92%	59.32%	7.09%	179,275	2.46872
Rating E	1.07%	0.66%	0.35%	2.36%	95.55%	151,332	1.09341

NLB and the Group comply with all regulatory requirements, and all Group members must also comply with the internal NLB credit risk system that is oriented towards future creditworthiness of our clients. Migration matrices for the past 32 quarters from 1994 to 2001 for NLB, show that the Bank has relative strong stability in the quality of assets.

Banks of the Group apply the same criteria regarding client's credit grading, client and country limits, quality of collateral, minimum level of provisions and data structure. The cover ratio of specific provisions to doubtful and non-performing assets is higher than 85 per cent in NLB and above the minimum required by the Bank of Slovenia in all subsidiary banks. Foreign subsidiaries also follow this policy. The cover of specific provisions to doubtful and non-performing loans and other credit risk exposures of clients rated as C, D and E credit grade stood at 97 per cent per cent and 103.6 per cent in NLB.

Country risk is managed by using maximum risk levels for exposures to different countries, including an emerging markets limit. Assessment of the risk level of a given country is performed through a review of that country's major macroeconomic data, its political situation and the rating attributed by international specialised rating agencies.

MARKET RISKS MANAGEMENT

Basic market risks that the Group faces are foreign exchange, interest rate, securities portfolio and liquidity risks. These risks are analysed and managed on three levels. Firstly, business departments are responsible for managing of market risks within their authorities determined by the Management Board. Secondly, on the NLB level these risks are analysed and managed in accordance with internal policies and domestic central bank standards. Thirdly, the Risk Management Centre of the Bank controls market risk exposures of each bank and of the Group as a whole.

Foreign exchange risk

The NLB's foreign exchange risk emanates from both trading-book and structural positions, while the foreign exchange risk of the Group is concentrated in structural positions.

On a consolidated basis foreign exchange risks are reported to Bank of Slovenia using a standardised approach every half-year end. We ensure capital adequacy for these exposures.

Internally NLB manages foreign currency risk in line with policy that sets limits on currency positions, dealer limits and VAR calculation. In VAR calculations the Basle Committee amendment criteria for internal approach to measure foreign currency risk capital charge is applied. In September 2002 it was decided to implement a historical simulation method instead of the previously selected parametrical VAR. The approach provides for a daily revaluation of the Bank's foreign exchange portfolio on the basis of the historical trend in market prices and their correlation over the past year. VAR methodology is therefore one of the most important tools in the active management of open foreign currency positions. The model is supplementary to the requirements of the Bank of Slovenia.

The foreign currency risk measurement model has the following characteristics (VAR parameters):

- VAR is calculated daily, based on the previous working day's exposure (trading and banking book),
- the holding period of 10 days,
- the period of observation is 250 working days,
- the level of confidence 99 per cent,
- the historical series is updated daily.

Since the implementation of new method, the average daily VAR for the last quarter of 2002 was 290 million tolar, including derivatives.

Interest rate risk

The measurement of interest rate risk exposure means quantifying the potential loss, resulting from an adverse movement in interest rates. In the Bank and Slovene subsidiaries, gap methodology and duration is used, while foreign subsidiaries are using their own models, making different scenarios for interest rate movements.

Liquidity risk

Management of liquidity risk includes effective control processes and fulfilment of Bank of Slovenia regulating requirements on the liquidity area. The Bank regulates operative liquidity on the basis of planned cash flows, on tolar side at least for 30 days ahead and on foreign for 10 days. Adequate information system enables connection between business sectors, administration and treasury, that assures data on liabilities due and new accounts approved, thus enabling a sufficient management system. Liquidity scale with the information on all known cash flows from bank's operations presents the basis for daily reports on liquidity in advance for up to 45 days daily, for up to one year monthly and for more than one year annually.

We balanced the liquidity management between NLB and daughter banks with a contract of cooperation of banks in the area of Treasury. Each bank is thus primary responsible

for its daily liquidity in tolar and foreign currency. It ensures required financial assets and manages its surpluses and deficits with the Parent Bank. With the goal of effective liquidity management, rules of internal trading with tolar and foreign currencies were formed, that enable daily operations with deposits in local and foreign currency and repurchase of foreign assets.

Securities portfolio management

Treasury manages an extensive debt securities portfolio for foreign and local issuers. Trading is performed in cooperation with foreign and domestic banks, and investment banking and other customers.

Management of the domestic securities portfolio was effective. Major part of it represent Government bonds of the Republic of Slovenia. The Bank also took over the role of the official maintainer of the treasury bills market and has a leading role in dealing with domestic debt securities.

The majority of foreign investment represent foreign Bank of Slovenia certificates of deposit, prescribed by monetary regulation. The daily liquidity of foreign currency was managed with this portfolio.

PROVISIONING POLICY

Banks of NLB Group form special provisions for potential losses arising from credit, country and other known risks exposures. Regarding the growth and structure of loan portfolio the Group assigned 12.4 billion tolar from net income to provisions. In the same period the Bank formed additional provisions in amount of 0.75 billion tolar. Write-offs amounted to 2.2 billion tolar and 0.9 billion tolar recoveries from assets previously written off were realized.

The average grade of provisions within each rating group of exposures is always above the level required by the Bank of Slovenia. This together with above 100 per cent NPL's provision coverage express prudent performance of provisioning policy.

BUSINESS REPORT

The solid financial results reported and effective risk management reflects the Bank's and the Group's success in all key areas of business. As part of the evolution of NLB a new organisation structure has been implemented, which reflects how the organisation will be shaped and focused in the coming years. The structure consists of five centres, a Governance centre and four Value Centres, each one led by a member of the Management Board. On January 1, 2003, the following Centres come into being:

Governance Centre

The Governance Centre includes Finance, Strategy and Risk Management and is responsible for the Group's strategic development including Human Resources development. The Finance role includes accounts administration and payroll, financial and management accounting and investor relations. This centre is also responsible for Group Risk Management and the overall Group strategy, Company Secretary, Internal Audit and the Compliance Office. The Governance centre is headed by Marko Voljč, the Bank's President and Chief Executive Officer.

Treasury, Investment banking, Asset Management and Group Investments Value Centre

This Centre is responsible for the Group's liquidity management, investment banking and corporate finance, asset management and management of the Group's capital investment strategy. Andrej Hazabent, member of the Management Board, leads this Centre.

Retail, Small and Medium Enterprises and Electronic Banking Value Centre

The Retail and SME Centre is responsible for the profitable marketing of the Group's products and services through its extensive network and distribution channels to the various segments of the personal and SME markets. Pierre Van Keirsbilck, member of the Management Board, leads this Centre.

Corporate Banking Value Centre

All of the Group's commercial banking and para banking products are promoted through the Corporate Banking Value Centre where the centre focuses on profitable growth of key market segments in the corporate market. The leader of this Centre is Matej Narat, member of the Management Board.

International Banking, Information Technology and Operations Value Centre

This Centre incorporates international banking, domestic and international payments and business administration. It is also responsible for IT management and legal affairs. The Centre is headed by Borut Stanič, member of the Management Board.

The following pages contain a brief business review on each centre.

TREASURY, INVESTMENT BANKING, ASSET MANAGEMENT AND GROUP INVESTMENTS VALUE CENTRE



Member of the Management Board Andrej Hazabent

Treasury

Treasury manages an extensive portfolio of foreign currency and tolar investments on the inter-bank market and with the Bank of Slovenia. Treasury in recent times is a net seller of foreign currency to the Bank of Slovenia and the inter-bank market due to the large inflows of foreign direct investment in 2002. The majority of the Treasury's foreign currency assets are Bank of Slovenia certificates of deposit as the daily management of foreign currency liquidity is with this portfolio.

There was active trading in foreign and domestic debt securities in the past year with Republic of Slovenia Government bonds being the major part of the domestic securities trading.

The Bank assumed the role of official maintainer of the treasury bills market and plays a leading role in domestic debt securities. NLB also has the leading role in introducing and developing derivatives where there was a significant increase in the type and volume of derivatives in 2002.

Treasury also directly manages the deposit portfolio of the larger Slovene companies.

Investment banking

Corporate Finance

NLB recorded significant growth in corporate finance fee income with revenues exceeding 440 million tolar generated mainly through organising syndicated loans and guarantees, and advisory services related to obtaining alternative sources of financing for major investment projects. Revenues were also generated through activity on mergers and acquisitions projects that included debt financing and issuing securities for example with the Slovene brewery and phone operator.



In the syndicated loans and warranties market, NLB carried out several significant projects totalling 140 million euros for major Slovene companies. NLB participated as agent and co-arranger together with foreign banks. NLB also organised a syndicate of domestic banks to provide FX purchase capability for the 623 million euros, resulting from the acquisition of the pharmaceutical company Lek by the international pharmaceutical company Novartis.

In 2002 NLB continued to play a leading role in the further development of the debt securities primary market. The Bank carried out four of its own debt issues, all of them as private placement of bonds, with maturity from three to seven years, with the total issue amounts of 27.4 billion tolar and 36 million euros.

Dealing with securities

The Bank is a leading member on the Ljubljana Stock Exchange with 93.6 billion tolar in turnover, a 96.8 percent increase on 2001 and a 9.7 percent market share.

Merger and acquisitions activity in 2002 was the main reason for the increase in turnover. The first half of the year was influenced by the Belgian brewery Interbrew's take over attempt of Pivovarna Union and the second half of the year 2002 was marked by the successful acquisition of Lek by the Swiss pharmaceutical company Novartis. The Slovenian equity index SBI 20 finished up 56 percent while the declining interest rate environment drove up the value of Slovenian bonds.



The Bank had turnover of 36.7 billion tolar in the OTC market an 86 percent increase, while turnover in foreign securities was 26.9 billion tolar up 97 percent.

Even though there has been a general downward pressure in brokerage commissions, the large increase in the volume of activity enabled the Bank to increase revenues 120 percent to 380 million tolar.

Asset management

Portfolio Management services offers clients the choice to invest in assets in Slovenia and abroad and during 2002 the Bank began offering standardised product portfolios through the branch network.

Favourable circumstances on the domestic market are the main reasons for a two-fold increase in the amount of the assets under management totalling 5.9 billion tolar in 2002. There has been a three-fold increase in the number of clients having a discretionary portfolio management service with dynamic growth also expected in the future.

NLB analysts offer professional support to NLB clients with research including capital markets analysis and investment opinions regarding buying and selling securities in Slovenia and foreign capital markets. Reports are prepared regularly and the Bank also develops securities valuation models for analytical support in different area of banking operations.

Custody services

Major feature in 2002 represents harmonisation of Slovene legislation with EU directives on capital markets. The most influential factors on further development of custody services were:

- abolishment of all restrictions for foreign portfolio investments, in line with the provisions of Pre-Accession Agreement,
- passing of the Act on Investment Funds and Management Companies.

Assets under custody have exceeded 84 billion tolar, with a three-fold increase in transaction volume. Notwithstanding the significant decrease of custody fees, planned revenue deriving from custody services was exceeded by 6 per cent. Significant impact on the assets increase was recorded by the implementation of a new service - safekeeping of materialised securities, favourable mostly with domestic investment funds.

In line with legislative changes intense preparations for the launch of the fund administration services were in the full swing at the year-end. Legal introduction of the mandatory custody bank for investment funds and further differentiation of custody services with regard to segmentation of different target investors group, will give a fresh impetus to further development.

Custody services are taking a position on the Slovene capital market as a highly qualified and established area of securities business, with NLB having a leading role.

Management of capital investments

The Group comprises of 39 companies and banks in Slovenia and abroad, with NLB being the most significant legal entity. In Slovenia, the Group consists of NLB and three of its daughter banks and several affiliated companies and financial organisations, while abroad it comprises mainly of banks and financial institutions.

NLB Group in Slovenia

While Banka Velenje d.d., Pomurska Banka d.d. and Dolenjska banka d.d. became fully owned by NLB in 2001, a further three Slovene daughter banks remain partially owned. As at December 31, 2002 NLB held a 41.3 per cent capital share in the ordinary voting shares of [Koroška Banka, d.d.](#), [Slovenj Gradec](#) and a 40 per cent share in both [Banka Zasavje d.d.](#), [Trbovlje](#) and [Banka Domžale d.d.](#), [Domžale](#). The Group also includes an associated bank, [Banka Celje d.d.](#), [Celje](#) where the Bank has a 36.6 stake.

NLB also has affiliated companies involved in the non-traditional banking activities such as leasing, factoring, asset management and insurance that complements the core business.

NLB owns an 84 per cent of [LB Maksima d.o.o.](#), [Ljubljana](#), a company that manages three authorised investment companies.

With the purpose of developing asset management business, NLB began the process of forming a new company [NLB Skladi d.o.o.](#), [Ljubljana](#) a fully owned subsidiary of the Bank.

NLB is, with a 27 per cent share, together with Insurance Triglav, the biggest shareholder of [pension company, Skupna pokojninska družba d.d.](#), [Ljubljana](#).

In 2002 together with KBC, NLB began establishing a life insurance company [NLB Vita d.d.](#), [Ljubljana](#), whose founders will each have a 50 percent share.

[LB Leasing d.o.o.](#), [Ljubljana](#) is a wholly owned subsidiary dealing in financial leasing and leasing real estate, vehicles, ships and boats, farming and construction machines, office space, information technology and other equipment. The company has leasing operations in Maribor and Koper and owns [Optima Leasing d.o.o.](#), [Ljubljana](#). NLB owns a further two leasing companies: [Feniks d.o.o.](#), [Murska Sobota](#) and [Fit Leasing d.o.o.](#), [Velenje](#).

[LB Hipo d.o.o.](#), [Ljubljana](#), together with its subsidiary [LB Propria d.o.o.](#), [Ljubljana](#), deal with real estate operations and renting while [Real d.o.o.](#), [Novo mesto](#) operates in the same market and is 90 per cent owned by NLB.

The Group holds a 39.4 percent stake in [Bankart d.o.o.](#), [Ljubljana](#), a card processor company. [Prospera Plus d.o.o.](#), [Ljubljana](#) is wholly owned by NLB and operates in the catering and tourism trade.

NLB Group abroad

The Group outside Slovenia is present in two core geographical regions - the EU and SE Europe, in accordance with Group strategy to support Slovenian business operating in these regions.

NLB has a 56.0 percent share in [LHB Internationale Handelsbank AG in Frankfurt](#), and holds a 26.3 percent share in [Adria Bank AG](#), an Austrian affiliate of NLB.

[LB InterFinanz AG, Zurich](#), is wholly owned and deals principally with forfaiting. Its subsidiary, [LB InterFinanz s.r.o.](#), [Praha](#), performs financial and commercial consulting and also offers factoring and forfaiting services in Central and East European markets.

[LB Factors d.d.](#), [Ljubljana](#) is a specialised factoring company that offers a range of services on the domestic and foreign market. 35 per cent of the company is owned by LB InterFinanz and 15 percent by NLB, while the Slovenian export company owns the remainder.

In 2000 two foreign banks became members of the NLB Group - [Tutunska Banka a.d.](#), [Skopje](#) and [Commercebank d.d.](#), [Sarajevo](#). NLB has a 52.9 stake in Tutunska Banka while Banka Domžale and LHB Internationale Handelsbank AG increased their combined ownership of Commercebank d.d., Sarajevo to 100 percent. NLB is also present in the FR Yugoslavia with a 59.2 percent holding in [VB Banka a.d.](#), [Banja Luka](#) through an LHB capital investment.

In Serbia and Montenegro in 2002 activities continued with organic growth of established investments, as well as searching for suitable investments and strategic partnerships, where LHB has played a role with its subsidiaries in Zagreb and Belgrade.

In the Czech market in April 2002, NLB bought from Union Invest Holding a.s., Ostrava, 100 percent of Union Invest Capital and the company was renamed [LB Factoring CZ, Ostrava](#). The company specialises in domestic factoring and debt repurchases, while foreign factoring is still in development phase.

Disinvestments

In September 2002, NLB sold its investment in [LBS Bank - New York](#). LBS was established in 1986 focused mainly on trade flows between United States of America and Slovenia and other countries of Central and East Europe.

In line with the process of selling non-strategic investments, NLB sold some of its investments in companies acquired on debt to equity swaps.

RETAIL, SMALL AND MEDIUM ENTERPRISES AND ELECTRONIC BANKING VALUE CENTRE



Member of the Management Board Pierre Van Keirsbilck

In 2002 the NLB Group continued to enhance the quality of products and banking services offered to clients through a nation-wide retail network. It is now consisting of 188 branches and 14 outlets within NLB, the retail network of all subsidiary banks in Slovenia (29 branches) and Area Branch Triest.

Retail banking

The Banks core customer base in Slovenia continues to grow with an 10 per cent increase in the number of current account clients to 700,000. Growth was experienced in all areas of business and included an increase in deposits of 13.5 per cent with lending activity up by 10.0 per cent.

In the customer deposit market the Bank continued to participate in the Government's National Saving Scheme, where it has a 48 percent market share in concluded contracts.

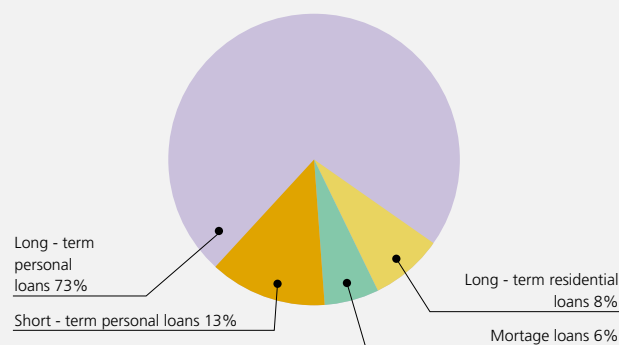
To further develop the retail lending business the Bank promoted a number of different loan products including personal, long-term residential, mortgage and bridging loans.

Total turnover in the debit card business in 2002 was 230 billion tolaras a 35 per cent increase in the value of card transactions, while the number of cards in issue cards grew by 11 per cent. Cardholder types include BA/Maestro debit cards accounting for 76 per cent, Karanta cards 12 per cent, Eurocard/MasterCard 11 per cent and Visa 1 per cent. NLB has a 51 percent market share in all banking debit cards. Banks within the Group are gradually equipping their Point

Of Sale terminals with PIN verification. By the end of 2002, 40 per cent of all 9,000 active POS terminals were equipped.

The Bank's drive to market segmentation was evident with the implementation of the debit card for students, a joint project together with the Student organisation of Ljubljana University. The Bank also launched a special gold card with attractive insurance features.

Structure of newly approved retail loans in 2002



Modern distribution channels

There was a significant increase in the number of retail and corporate users of modern distribution channels.

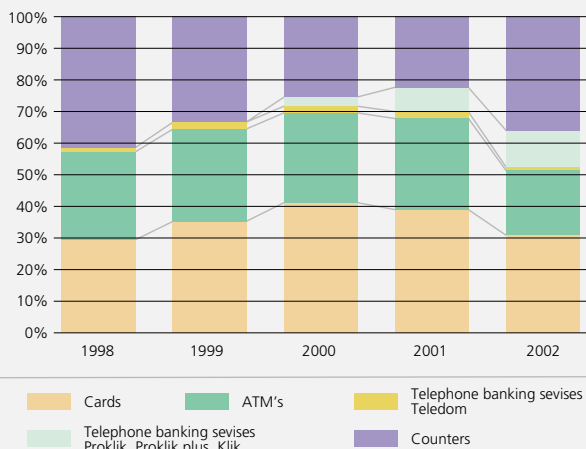
Electronic banking **Proklik NLB** and **Proklik plus NLB** have been developed for business customers while **Klik**, is the internet banking service for retail customers. Klik recorded 1.5 million transactions in the past year and the Bank has a 51 per cent market share.

Teledom, a telephone banking service designed for the retail sector operating for several years recorded over 1 million transactions in 2002 and the Bank's market share reached 79 per cent.

Moba NLB enables managing financial transactions and other banking services over mobile phones with SAT technology, with 4,160 customers users using the service. The offer of mobile banking includes the possibility of ordering SMS account balances and WAP page of NLB.

The NLB Group with 540 **ATMs** accounts for nearly half of the ATMs in the network. ATMs support cash and non-cash transactions, all other inquiries and the purchase of Slovene mobile phone cards. They enable cash withdrawal with debit cards VISA and Eurocard/Mastercard.

Structure of financial transactions through modern distribution channels for the Group (domestic banks) in %



Tolimati are saving counters for the younger savers, meant for smaller deposits and are in children's corners in 14 branches.

Increase in the volume and the value of transactions over the counters in 2002 is a consequence of the conclusion of domestic payment migration for corporates to banks.

New product development

NLB continues to lead the way in bringing new products and services to the Slovene market.

The Bank introduced Moba NLB that enables clients to perform banking services by using mobile phone.



In 2002, the Bank introduced new personal accounts with a broad range of features, and included ten different types of accounts. These personal accounts are multi-currency,

include a broad range of modern distribution channels and card design, offering an overdraft facility and mobile banking. The Bank opened more than 4,000 special personal accounts by year-end. In addition, the implementation of new technology support in deposits business enhanced the offer of the nature of deposit products to clients.

In September 2002, the Bank renewed its web page <http://www.nlb.si> with the purpose of improving information value of web content and providing an instant connection between the presentation of offers and doing business. The re-designed web activities received recognition from the leading Slovenian business magazine 'Gospodarski vestnik' as the best business web page in Slovenia.

Private banking

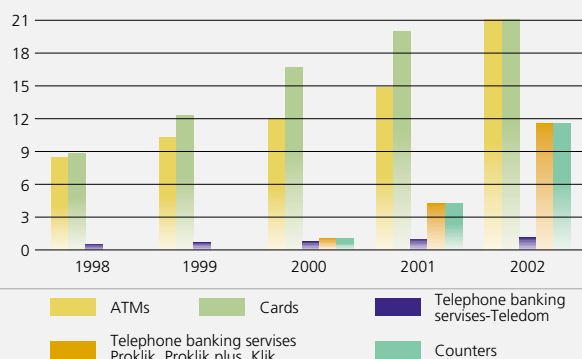
The focus on segmentation specialisation continued with the development of private banking that offers a complete customer relationship, quality wealth management and financial planning services customised to the needs of individual clients. Specially trained consultants for private banking, supported by a group of professional specialists, offer qualitative, professional and a flexible approach in different areas such as tax, legal, real estate, investment and pension consultancy in accordance with customer requests. Retail clients also have access to investment banking services either buying or selling securities, and portfolio management.

Small and medium enterprise segment

The Bank recognises the importance of the small and medium size enterprise sector (SME) and the significant role that this sector plays in the Slovene economy with the huge development potential it offers the Bank. Decentralisation of services to branches to service this sector more efficiently together with the development of a business advisory function is helping to build strong partnerships with our SME and sole trader customers. The Bank is actively involved in the development of business strategies and plans for clients in this sector. Specific sectors were targeted in this business segment including agriculture as it is an important industry in rural Slovenia.

To further enhance ties with the SME segment the Bank cooperates with different institutions, such as funds, corporate and small business development centres, craft and economic chambers, communities and the "Small business development centre"(PCMG).

Number of financial transactions through modern distribution channels for the Group (domestic banks) in millions



Customer satisfaction

A customer satisfaction survey was completed for a fourth successive year and included retail and corporate customers. The results show general customer satisfaction but also reveal opportunities for improving the quality and range of services and products on offer. The results show that both retail and corporate segments are satisfied with the customer service approach of the Bank's employees, especially the discretion, reliability and accuracy of customer service delivered



CORPORATE BANKING VALUE CENTRE



Member of the Management Board Matej Narat

Corporate banking is organised into three sectors specialising in different business segments for large and medium sized enterprises. Products and services including lending, trade finance, money transmission, wealth management, leasing, factoring, brokerage and investment banking are offered to corporates, state institutions and financial institutions. Products and services are offered through specialised business sectors teams and through the network of branches. Corporate banking builds on a business cooperation strategy with strategic partners and corporate clients.

Complete customer approach and offer

Corporate banking marketing activities in 2002 are focused on enhancing the range and quality of services on offer to its corporate customers. Progress was achieved through a program of specialisation, focused on satisfying the ever-changing sophisticated client requirements especially in the medium to large size enterprises. NLB's advantage in this area is its expanding network in Slovenia and abroad, modern distribution channels, and specialised Group companies that can offer a sophisticated mix of financial services.

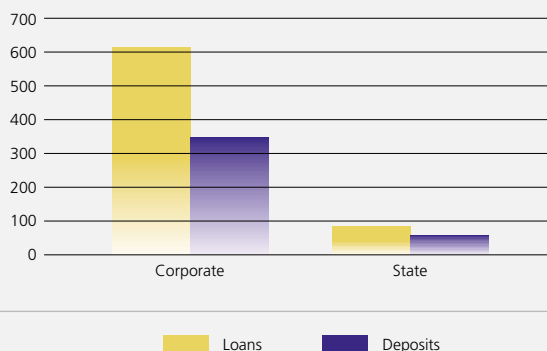
Conclusion of the payments system migration of corporates to banks

First half of the previous year was marked with intensive activities to enable the transfer of cash payments of corporates from state agency to banks. We successfully concluded this migration in July. As result we will be able to

improve a client relationship on the base of two elements: an integral review of corporates operations and a detailed client treatment. The migration process has been running since the year 2000, but most of our clients decided for their account transfer in 2002.

Payment system on the Group level offers corporate clients foreign payments and cash management services. It is upgraded with the possibility of electronic banking that enables clients payments, that are more cost and time effective. We offer two forms of electronic banking - Proklik and Proklik Plus for effective, quick and modern domestic and foreign payments. The difference between them lies in satisfying different needs of clients. Both provide internet access, Proklik NLB also through the modem. In 2002 those users made 11.8 million transactions. Modern technologies for ensuring safety enable electronic banking safe operations.

Corporate and state deposits in 2002
in billion tolar



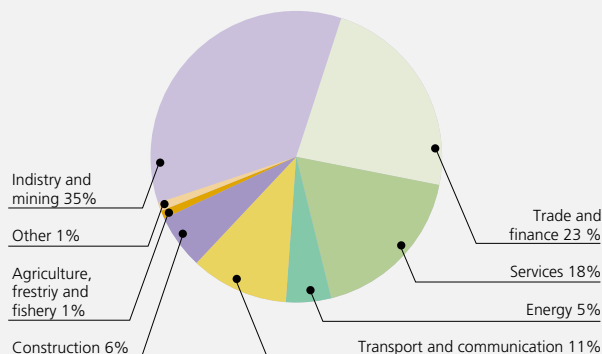
Corporate customer operations are in major supported with on of two electronic banking applications. By the end of 2002, after ending the transformation of corporate and private accounts to business banks the Group reached a 41 per cent market share with over 53,000 accounts opened. Among business account possessors, 39 per cent of them are electronic banking users.

The Group uses a price - differentiation payment system, meaning that internal payments among Group customers are priced favourably. The Group continues to offer all traditional products and services for cash and non-cash transactions including safe deposit boxes in almost all branches for both corporate clients and sole traders.

Lending activity

Growth in lending continued, but with a slower growth rate than in previous years. This is due to weaker investment activity in the corporate and public sectors caused by lower economic activity in both the domestic and international environment.

Structure of corporate loans by industries



Customer loans grew by a total of 10.5 per cent with lending to the public sector increasing by 13.9 per cent and corporate by 12.8 per cent. NLB slightly decreased its market share to 32.3 per cent, and has a 30 per cent.

The growth rate of foreign currency loans was significant, as the demand for foreign exchange loans, especially from the Bank's own sources, was very high. Strong demand was mainly driven by a difference between tolar and foreign exchange loan prices and the currency risk adjustments. Thus, foreign exchange loan gained heavily in the structure of all loans to corporates and public sector in the previous year.

The Bank organised several large projects, some of which were syndicated. The larger projects included telecommunications, railway traffic and infrastructure, trade and steel production.

The process of dropping interest rates margin continues. In November the Bank executed two important measures: the reduction of real interest rates and a supplementing of offer to long-term tolar loans. We now offer long-term loans on a basis of nominal first grade start interest rate of NLB and on a basis of nominal start rate of NLB.

Corporate deposits

Customer deposits grew by 14 per cent in the past year that included a 58.6 per cent increase in public sector deposits, a 14.6 per cent increase in retail and 5.5 per cent in corporate deposits.

The bank holds a 35.6 percent market share in the customer deposits market including a 33 percent market share of corporate clients deposits.



INTERNATIONAL BANKING, INFORMATION TECHNOLOGY AND OPERATIONS VALUE CENTRE



Member of the Management Board Borut Stanič

International activities

NLB Group operates abroad through a network of subsidiary banks, LHB (Germany), Tutunska banka (Macedonia), Commercebank (Bosnia and Herzegovina), subsidiary companies, LB InterFinanz (Switzerland) and LB Factoring (Czech Republic) and associate bank Adria Bank (Austria). NLB also maintains a presence abroad through a branch in Trieste (Italy) and representative offices located in major financial centres including New York and London.

In line with the strategy NLB has also enhanced its presence in the emerging markets with offices in Belgrade, Warsaw, Moscow and Prague. Restructuring of the NLB network has also resulted in LBS Bank in New York being sold to KBC and the closure of representative offices in Budapest, Frankfurt and Milan.

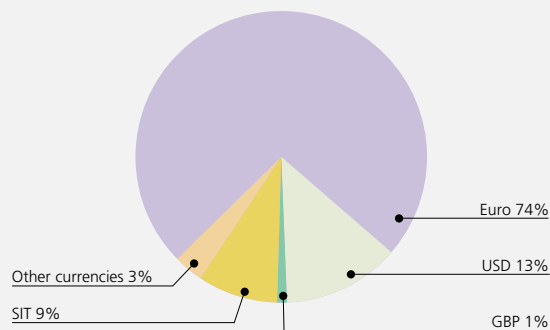
The Bank has strong business relationships with multilateral financial institutions, including the World Bank Group, EBRD, EIB, IIF and the Inter-American Development Bank, other leading supranational organisations. NLB is also a member of several national and international associations and organisations as well as a founding member of the Mediterranean Bank Network consisting of 11 leading banks of similar size and market orientation from Mediterranean countries. Principal activities of the Network are linked to exchange of trade, investments and information.

International payments

The Bank maintains a correspondent relationship network of around 1,300 banks in 137 countries, which enables efficient performance of international operations. With these banks NLB held 93 accounts in foreign currency ("nostro accounts"), while 298 foreign banks accounts ("loro accounts") are held in NLB in Slovene tolar or in foreign currency. The number of accounts has reduced in recent times due to the trend of bank mergers, the introduction of euro and cost efficiency programmes.

International payments have remained one of the NLB's key activities in creating non-interest revenues. Total volume of international payments in 2002 grew to 10.7 billion euro with incoming payments of 6.6 billion euro up 40 per cent, and outgoing payments totalling 4.1 billion euro, up 5 per cent.

Structure of international payment transactions in 2002



Euro payments account for 74 per cent of total flows, followed by dollar with 13 per cent, tolar with 8 per cent and pound Sterling 1 per cent.

Trade finance

In December 2002 outstanding foreign exchange guarantees totalled 535 million euro, of which net newly issued guarantees rose by 10 per cent to 171 million euro. A significant increase in foreign exchange guarantee business is related to the financing of projects in a number of areas including infrastructure, electricity and acquisition of shares of foreign companies.

In 2002 the total value of letters of credit issued rose by 12 per cent, with the significant increase of special types of let-

ter of credits (Stand By, Deferred letter of credit, Letter of transfer, etc.) as they are part of integrated offer within export financing.

Volumes of clearing and settlement of foreign cheques decreased with the closing of the euro-cheque Clearing Centre and termination of paper euro-cheque as a guaranteed payment instrument.

Export financing

The Bank offers a wide range of trade related services including various forms of buyers credits, forfeiting and arranging of bank-to-bank loans and loans to financial organisations as well as providing insurance for trade related business through confirming letters of credit and letters of guarantee. The major share in export financing and insurance facilities provided is to support Slovenian exports to the emerging markets.

Special focus is on Slovenia's major trading partners, CEFTA countries, Croatia, Bosnia and Herzegovina, Macedonia, Serbia and Montenegro and the Russian Federation as well as countries in the Middle East and Turkey which are important target markets for Slovenian exports. Export-credit financing and insurance facilities were provided in co-operation with the Slovene Export Credit Insurance Agency ("SID").



Transactions in the 2002 included financing the Ukrainian buyer of Slovenian equipment for 10 million dollars and financing of the buyer of Slovenian equipment from Kazakhstan for 5 million dollars both with insurance provided by the SID. Financing activities include loans to Croatian companies for the renewal of tourist facilities with insurance provided by the SID and mortgages as collateral.

In 2002 the aggregate volume of export finance transactions including forfeiting reached 78 million euro, while the total volume of confirmation of letters of credit and letters of guarantee reached 40 million euro.

Borrowings

The Bank's borrowing in the international financial markets is successful due to high credit ratings and excellent relationships with foreign banks. Total external borrowings amount to 696 million euro, an increase of 197 million euro or 39 per cent compared to 2001.

The most significant events in 2002 included a subordinated loan in the amount of 90 million euro with KBC N.V. as the lender, followed by a 95 million euro syndicated loan. Bank Austria AG, KBC N.V., LB Kiel and WestLB arranged this facility. Twentyone international banks from twelve countries participated in the transaction.

NLB also concluded eight bilateral loan agreements with foreign banks totalling 47.5 million euro. To meet the requirements of Slovenian companies NLB also concluded a number of bilateral loan agreements with foreign banks totalling 65 million euro. Several new frame loan agreements were signed in order to speed up and simplify the procedure of executing individual transactions.

NLB in cooperation with Council of Europe Development Bank (CEB) financed a building project of retirement homes in Slovenia with 2.5 million euro, with long-term project financing that has maturity up to 15 years.

NLB offers financial advisory services to its clients borrowing abroad on their own account as well as performance of financial services for clients raising loans with international financial institutions.

Information technology

The Bank continues to invest in bringing in new technologies and improving existing technology capabilities in order to provide effective and quality supply of products and services for internal and external customers.

2002 witnessed the implementation of new technology called Sigma, for retail and corporate products, including Bancs for loans and time deposits. The Bank also began implementing a new Transaction Account (TRR) for the retail sector, while a new card processing control was developed to support products for corporates, called Globus. Treasury operations on the interbank market are also operating on a new platform while integration testing is in process for TRR for legal entities and the Imago +, a new support for payment order's for the retail network. Technical education on new support systems meant the Bank organised seminars that 1,600 employees participated in. The Bank's subsidiary banks, associated Banka Celje and Gorenjska banka all completed the requirements for access to the new informational support system Bancs.



Internal technology development included support for payroll, while the data warehouse project delivered its first important results with daily liquidity reports prepared for the Bank of Slovenia. A new communication program is in development stage and the transfer of data is set to improve business process.

Other internal developments saw upgrading of telecommunications, while the retail network changed the operational system to Windows 2000 on all PC's in branch-offices. The NLB web site was upgraded and mobile banking Moba was pioneered in the market.

New information technology in the Group companies has improved. Additionally the Bank performed a review of IT infrastructure in Tutunska Banka, Skopje and in VB Banka, Banja Luka. Following the review, a set of proposals for IT enhancements has been prepared as co-operation with subsidiary banks gains importance.

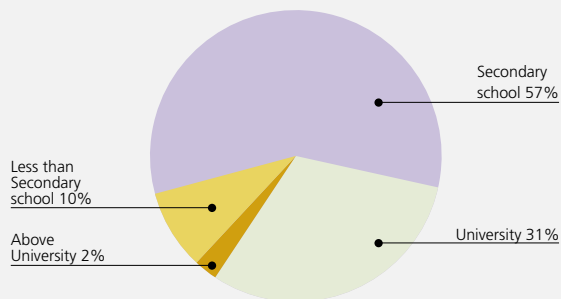
HUMAN RESOURCES

NLB has 3,953 employees. NLB Group is employing 5,245, including the Parent Bank and all subsidiaries. Human resources development in NLB for the past year addressed the needs of the Bank to increase the focus on customer service and sales and continue the process of restructuring and rationalisation of operations. This included the centralisation of business operations and back office support in the merged daughter banks.

NLB continued with investing in employee development, with each employee having an average of 5 days training, the focus being on developing teamwork, sales skills and customer service skills.

The annual review process for all employees now centres on managing by objectives that are linked to the strategic goals of the Bank.

NLB Group average employee structure by the degree of education 2002

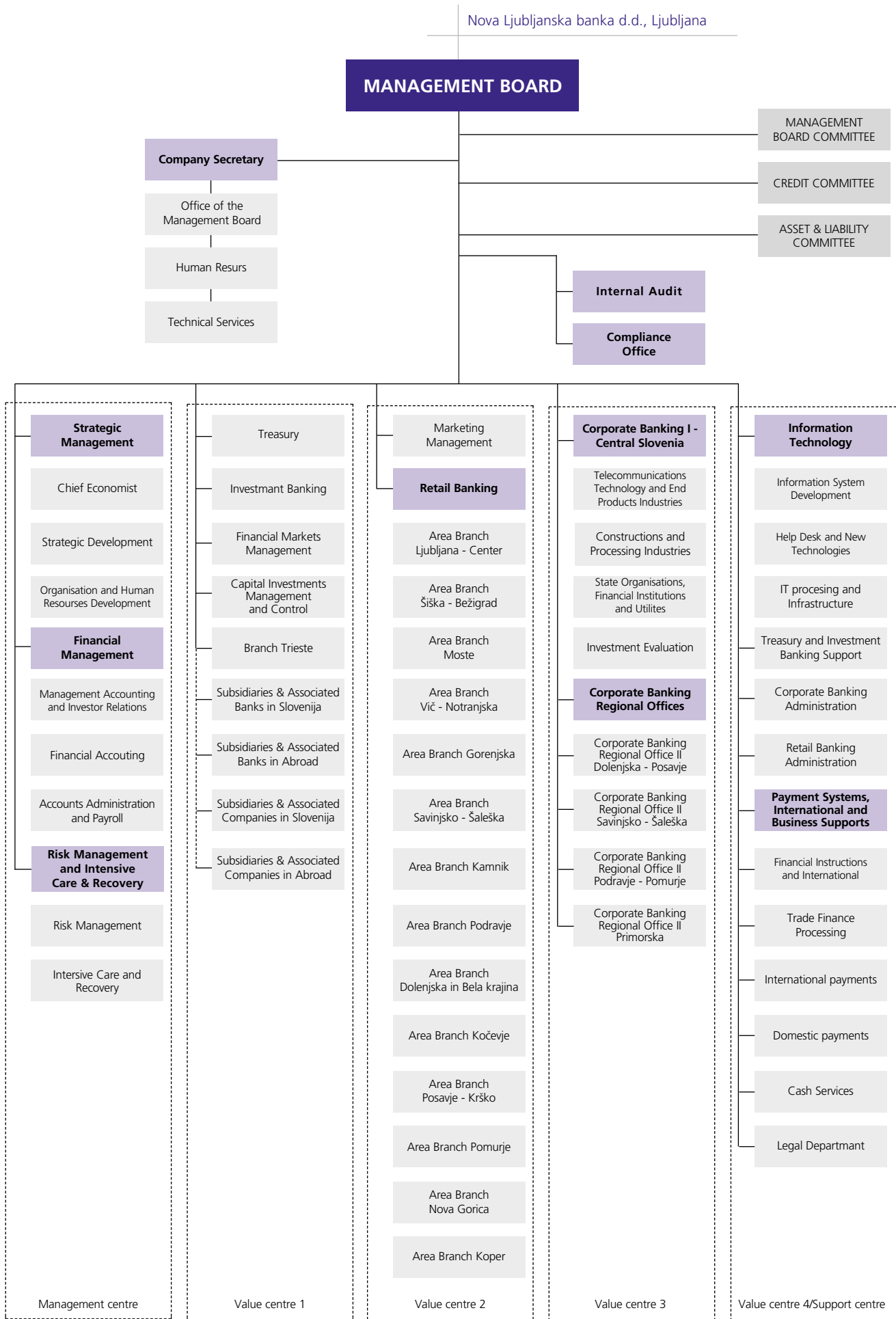


By increasing the mobility of management across the Bank and consequently the transfer of knowledge and experience within the Group, the first step has been taken in achieving a vision of forming a uniform organisational culture.

The Bank also has an active development program for the younger employees with high potential.

With the focus on improving productivity of employees as a strategy in the coming years, the Bank will continue its efforts to remain as "the employer of choice". The recent organisation climate survey in NLB compares favourably with results in other successful Slovene companies.





ORGANIZATION JANUARY 1, 2003

Management Structure¹

MANAGEMENT BOARD

Marko Voljč, President of the Management Board & Chief Executive Officer
 Andrej Hazabent, Member of the Management Board
 Matej Narat, Member of the Management Board
 Borut Stanič, Member of the Management Board
 Pierre Van Keirsbilck, Member of the Management Board

DEPUTY MEMBERS

Milan M. Cvikl, Chief Financial Officer, Deputy Member of the Management Board
 Gašper Jože Filipič, Senior Director, Corporate Banking I-Central Slovenia, Deputy Member of the Management Board
 Dušan Gale, Chief Information Officer, Deputy Member of the Management Board
 Tomaž Košir, Senior Director, Branch Network, Deputy Member of the Management Board
 Milan Marinič, Secretary General, Deputy Member of the Management Board
 Maksimilijan Janez Senčar, Senior Director, Deputy Member of the Management Board

CENTRE OF CREATING VALUE 1: TREASURY, INVESTMENT BANKING, ASSET MANAGEMENT AND GROUP INVESTMENTS

Branko Kobal, General Manager, Treasury
 Marija Koritnik, General Manager, Capital Investments Management and Control
 Miro Medvešek, General Manager, Investment Banking
 Janez Saje, General Manager, Financial Markets Management

Andrej Bratož, General Manager, Area Branch Triest

CENTRE OF CREATING VALUE 2: RETAIL, SMALL AND MEDIUM ENTERPRISES AND ELECTRONIC BANKING

Marketing Management

Irena Čuk, General Manager, Marketing Management

Retail Banking

Marija Triplat, Deputy of Senior Director of Branch Network

Marija Abramovič, General Manager, Area Branch Kočevje
 Vito Cigoj, General Manager, Area Branch Posavje-Krško
 Lidija Dovšak, General Manager, Area Branch Savinjsko-Saleška
 Jelka Fireder, General Manager, Area Branch Vič-Notranjska
 Nevenka Gorjup, General Manager, Area Branch Nova Gorica
 Milena Hribar, General Manager, Area Branch šiška-Bežigrad
 Marija Jazbec, General Manager, Area Branch Dolenjska in Bela krajina
 Zorica Kerec, General Manager, Area Branch Pomurje
 Lučana Krmac, General Manager, Area Branch Koper
 Pavel Martinuč, General Manager, Area Branch Gorenjska
 Borut Rataj, General Manager, Area Branch Podravje
 Dragica Slatnar, General Manager, Area Branch Ljubljana-Center
 Dušan šuštar, General Manager, Area Branch Kamnik
 Igor Žvokelj, General Manager, Area Branch Moste

CENTRE OF CREATING VALUE 3: CORPORATE BANKING

Corporate Banking I Central Slovenia

Marko Herzog, General Manager, State Organisations, Financial Institutions and Utilities
 Tomaž Jezerc, General Manager, Telecommunications, Technology and End Products Industries
 Bojan Slapnik, General Manager, Investment Evaluation
 Matjaž Zaviršek, General Manager, Construction and Processing Industries

¹Alphabetical order considered, with an exception for Marko Voljč, President of the Management Board.

Corporate Banking Coordination of Regional Offices

Marjana Konstantin, Director of Coordination Office

Regional Centres for Corporate Banking II

Franci Borsan, Director, Centre for Corporate Banking Regional Office II Dolenjska-Posavje

Dušan Mandič, Director, Centre for Corporate Banking Regional Office II Primorska

Viktor Šbul, Director, Centre for Corporate Banking Regional Office II Podravje-Pomurje

Boris Završnik, Director, Centre for Corporate Banking Regional Office II Savinjsko-Saleška

INTERNATIONAL BANKING, INFORMATION TECHNOLOGY AND OPERATIONS VALUE CENTRE

Maruša Dragonja Kosovinc, Director of Coordination Office

Information Technology

Ana Bandelj, General Manager, Retail Banking Administration

Mojca Čebulj, General Manager, Help Desk and New Technologies

Varja Dolenc, General Manager, Treasury and Investment Banking Support

Andreja Opec, General Manager, Corporate Banking Administration

Zvonko Sitar, General Manager, IT processing and Infrastructure

Aljoša Žonta, General Manager, Information System Development

International Banking and Operation Coordination Office

Helena Belingar, General Manager, Trade Finance Processing

Irena Dolinar, General Manager, Domestic payments

Gregor Kaiser, General Manager, Financial Institutions and International

Alenka Korče, General Manager, International payments

Brako Pahor, General Manager, Cash Services

Anton Ribnikar, General Manager, Legal Department

Company Secretary

Mojca Osolnik, General Manager, Office of the Management Board

Urban Smerkolj, General Manager, Technical Services and Deputy Company Secretary

Daša Zupan, General Manager, Human Resources

Compliance Office

Danijel Omahen, Chief Compliance Officer, Compliance Office

Internal Audit

Metka Turk, Chief Internal Auditor, Internal Audit

MANAGEMENT CENTRE**Strategic Management**

Nevenka Črnko, Director, Strategic Management

Katarina Knapič, General Manager, Strategic Development

Alenka Sabadin, General Manager, Organisation and Human Resources Development

Franjo Štiblar, Chief Economist

Financial Management

David Buckley, General Manager, Management Accounting and Investor Relations

Vanja Jurjevič, General Manager, Financial Accounting

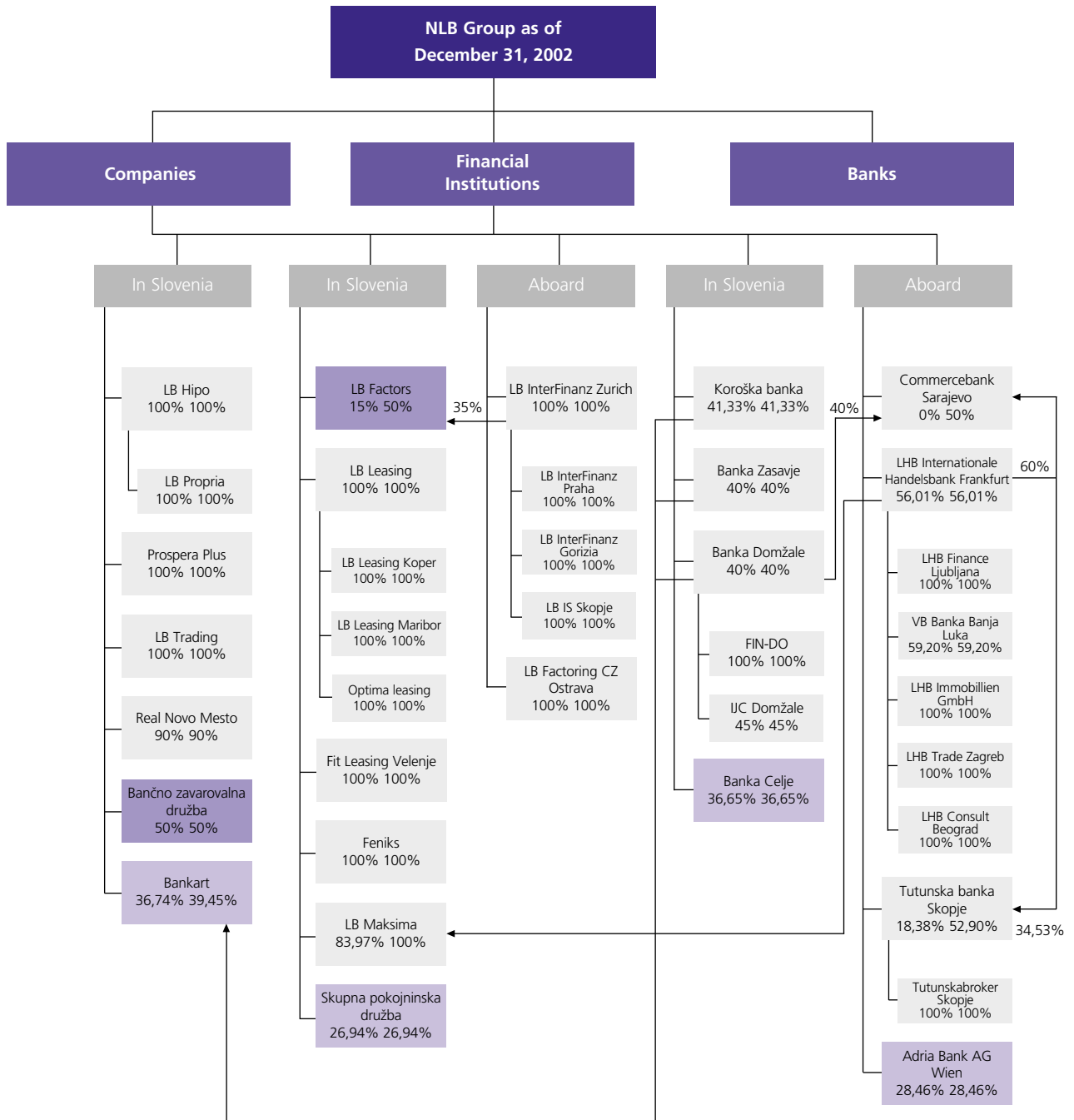
Polona Suhadolnik, General Manager, Accounts Administration and Payroll

Risk Management and Intensive Care & Recovery

Alojz Jamnik, Director, Risk Management and Intensive Care & Recovery

Pavle Kobler, General Manager, Intensive Care & Recovery

Josip Škoberne, General Manager, Risk Management



Legenda

Subsidiary		Joint venture		Associate	
NLB (direct) ownership share	Total (direct and indirect) ownership share	NLB (direct) ownership share	Total (direct and indirect) ownership share	NLB (direct) ownership share	Total (direct and indirect) ownership share

ECONOMIC ENVIRONMENT

prof. dr. Franjo Štiblar,
Chief Economist NLB

The Slovenian economy performed better than most in 2002 as GDP grew 3.2 per cent, the current account recorded a surplus of 0.3 per cent of GDP, and inflation fell to 7.5 per cent, while there was no increase in the budget deficit.

Table 17: Main macroeconomic indicators for Slovenia, 1997- 2002

(Area: 20.000 square km; population: 2 million; GDP: 20 billion USD)

	1997	1998	1999	2000	2001	2002
GDP (in %)	3.8	3.8	5.2	4.6	2.9	3.2
Inflation (average in %)	9.4	6.5	6.1	8.9	8.4	7.5
Balance of Trade (in mio USD)	-998	-1,060	-1,537	-1,384	-893	-572
BoP CA (in mio USD)	37	-147	-698	-548	31	58
Unemployment rate (ILO in %)	7.4	7.9	7.6	7.0	6.4	6.5
Budget balance/GDP (in %)	-1.1	-0.8	-0.6	-1.4	-1.4	-0.3

Sources: National Statistical Office, Bank of Slovenia, Institute of Macroeconomic Analysis and Development, EIPF

Economic environment in Slovenia

In 2002, the Slovenian economy was less affected by recession than most countries mainly due to a 12 per cent increase in exports to South-East Europe, CEFTA and countries of ex-Soviet Union. This together with an increase in government expenditure was behind GDP growth of 3.2 per cent, with signs that the dip in growth has already passed in mid-2002. The relatively weaker economic growth by Slovene standards meant that employment growth slowed to below 1 per cent and the unemployment rate stayed at the relatively low level of 6.5 per cent by ILO standards.

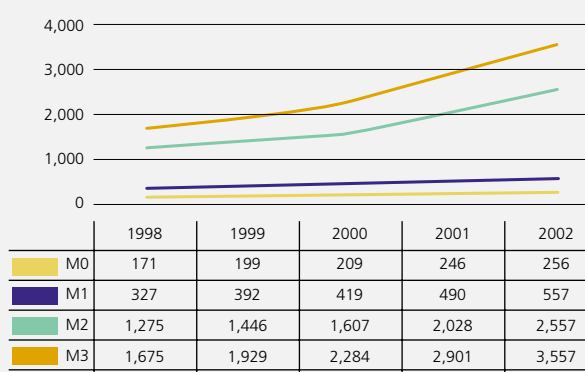
Analysis of GDP growth shows manufacturing increased by 3 per cent, construction by 2 per cent and services by 3.4 per cent. Both consumer and producer sentiment indicate improvement in the economic climate towards the end of 2002.

Inflation of 7.5 per cent (annual average) remains the main economic issue as it is still off targeted EU Maastricht criteria that Slovenia wants to comply with by 2004. Both oil prices and domestic cost-push factors contribute to inflation as labour costs grow faster than productivity. Producer's prices increased by 5.7 per cent on average while wages grew by 2 per cent in real terms.

The current account surplus was over 60 million dollars mainly due exports exceeding imports and there was a surplus in the capital account caused by strong net inflows of foreign

direct investments (FDI). The size of inflows at 10 per cent of GDP is almost equal to the cumulative amount for the previous 10 years. The gap narrowed between foreign exchange reserves and external debt reaching close to 8.2 and 8.8 billion dollars respectively. Reserves cover 7 months of import of goods and services and there is a low external indebtedness where the debt service ratio remains below 10 per cent. The public sector deficit increased to 3 per cent of GDP due

Monetary aggregates in Slovenia in billion tolar



to a once off change in accounting period for revenues from 11 to 12 months. However, public sector revenues exceeded forecasts and the share of public sector expenditures in GDP increased again reaching over 43 per cent.

Monetary aggregates jumped twice during 2002 due to excess inflows of foreign currency. At the beginning of the year the inflow was created by the introduction of euro and at the end of 2002 inflow was caused by sale of Lek to the Swiss pharmaceutical company Novartis. Annual monetary aggregate growth rates were 4.2 per cent for M0, 13.8 per cent for M1, 26.1 per cent for M2 and 22.6 per cent for M3. Financial savings grew faster than nominal consumption with the central bank monetary target of up to 20 per cent growth in M3 being surpassed. Financial deepening continues with total bank assets to GDP ratio reaching 90 per cent, which is still less than half of the ratio in developed economies.

The financial sector continues to be in good shape with only one small foreign bank recording losses in 2002. Banking assets increased by 14 per cent, ROE before tax was 13.5 per cent, ROA before tax 1.1 per cent while cost/income efficiency improved with a cost to assets ratio of 3.76 per cent. The insurance sector in Slovenia saw total premiums growing around 20 per cent, while the Slovenian stock exchange index reached an all time high in November 2002.

Slovenia continued with the policy of floating exchange rate with nominal depreciation of 3 to 4 per cent despite net inflow of foreign exchange. With average inflation at 7.5 per cent real appreciation is around 3 per cent. Nominal interest rates are falling with prime rate now around 10 per cent, however they are expected to further decline.

For Slovenia, the external environment is less favourable than a year ago with higher oil prices and recession in the EU, however this has been offset by the expansion of Slovenian companies to Southeast Europe.

Forecast for Slovenia

At the beginning of 2003 economic climate is improving, inflation is decreasing towards 6 per cent, nominal depreciation of tolar is slowing towards 2.5 per cent, and interest rates are declining with NLB prime rate already below 10 per cent in nominal terms. Current account remains positive, but budget deficit could grow so that re-balancing could be necessary.

At the end of 2002, Slovenia was formally invited to join the EU in May 2004. GDP growth is expected to accelerate to 3.7 per cent in 2003 and 4.3 per cent in 2004, while inflation is predicted to decline to 5.5 per cent in 2003 and to 4.3 per cent in 2004. This is important as the exchange rate will be fixed during the two-year preparation period for membership in ERM-2 as precondition for joining EMU, and will start around 2005.

On the domestic front, consensus among social partners should keep wage growth under control, while increased competition in the environment should help keep inflation

in check, however external inflationary pressures will be more difficult to control. The current account is expected to remain positive with financial inflow still a feature but less so than in 2002.

Policy issues and uncertainties

Firstly, a balanced budget seems to be more and more difficult to achieve, as EU membership approaches more institutions will be established and more public servants will be needed causing additional costs to a small two million inhabitants country. In addition it appears that Slovenia could be net contributor upon entering EU, which will mean up to 1 per cent of GDP outflow to Brussels.

Secondly, external conditions could worsen if political and military intervention in Iraq increases the price of oil but this risk is for all economies. Revival of activity in developed economies would change the external impact in a positive direction.

Thirdly, inflation is currently at the highest among new EU candidate countries and could be jeopardised by external events.

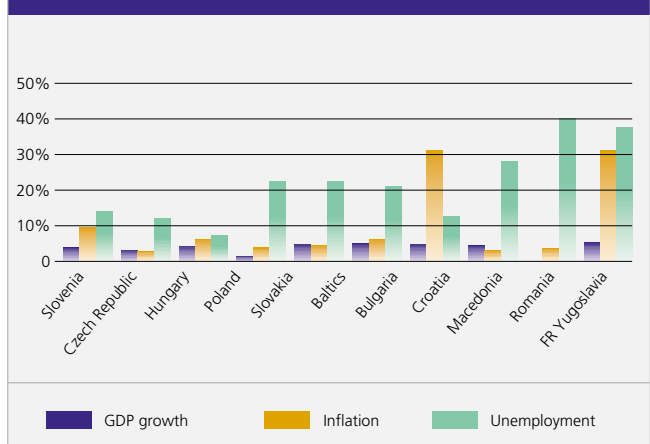
Finally, on the positive side, as EU entry approaches and with continued expansion to the markets of central, south and east Europe, domestic activity could accelerate.

Economies of the region

Economic activity decelerated in central and eastern Europe in 2002 but GDP growth remains more than double the rate in the EU. Domestic demand including public expenditure and private consumption replaced declining exports as the driver of growth.

Prudent monetary policy and favourable external conditions contributed to a decline in inflation, and this coupled with

The economies of the Region in 2002



competition resulted in a lower interest rate environment. Lower inflation and higher inflows of foreign currency led to stronger real appreciation of domestic currencies that in turn resulted in current account deficit remaining high despite declining imports. The budget deficit increased due to an increase in public spending and lower tax collection with the reduced economic activity.

Forecast for the Region

Economic activity in the region is expected to accelerate from 2.7 per cent average GDP growth rate in 2002 to 3.8 per cent in 2003 conditional on the revival of growth in developed economies and demand for exports from the region. In 2002 and beyond an additional boost is expected to come from membership in the EU and NATO adding up to 1-2 percentage points to the growth rate. Unemployment rates will slowly decline and inflation will decline further as members of EU prepare to enter ERM-2, while monetary, fiscal and income policies will be more in line with the EU standards.

A major policy dilemma for countries in the region is whether to prioritise growth or stability as the primary goal. With further integration into EU economy, cyclical dynamics will strengthen leaving a lower degree of freedom in economic policies with Central and East European countries.

The most significant uncertainty is the pace of economic development in developed economies as dependence on exports will increase in the future.

In the Balkan transition economies the situation is continually improving with GDP growth exceeded 4 per cent, declining inflation, no increase in unemployment, while both

external and internal balances improve. Further growth is expected as favourable external conditions prevail including lower interest rates and growth in the EU and Russia. Also it will be helped by further improvement in the political climate and continuation of established economic reforms should help growth in the region.

With economic stability the region becomes a potential destination for investors in the near future as profits and margins in developed markets continue to decline. Regional country risk is rapidly improving, however a selective and careful approach is still required.

Optimism for the region stems from several factors including the signing of the Stability Pact for the region (1999), democratic evolution Yugoslavia (2000), the Framework Agreement in Macedonia (2001), elections in Kosovo (2001), transformation of Yugoslavia into Serbia and Montenegro (2002) and accelerated GDP growth in Croatia.

Table 18: Forecast for Slovenia, 2000-2004

	2002	2003	2004
GDP growth (in %)	3.2	3.7	4.3
GDP (in bio USD)	19.6	20.9	22.4
Unemployment Rate (in%)	11.3	10.9	10.4
Unemployment Rate (ILO, in%)	6.4	6.2	5.9
Inflation (Dec/Dec, in%)	7.2	5.4	4.6
Inflation (yearly average, in%)	7.5	5.5	4.6
Export of G&S (in bio USD)	5.2	6.5	6.3
Import of G&S (in bio USD)	1.6	5.2	6.8
Trade Balance (in mio USD)	-537	-501	-578
Current Account (in mio USD)	58	86	-2
Forex Reserves (in mio USD)	8,152	8,500	8,800
External Debt (in mio USD)	8,799	9,100	9,400
Balance of Payment (% GDP)	-3.0	-1.5	-1.0
SIT/USD	221	215	220
SIT/EUR	230	237	242
Movement SIT/EUR (percentage points)	4.0	2.7	2.5
Bank Assets growth (in %)	15.0	14.0	13.0

Nova Ljubljanska banka d.d., Ljubljana

**Audited Consolidated Financial Statements for
NLB Group under Slovenian Accounting Standards**

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NOVA LJUBLJANSKA BANKA d.d., LJUBLJANA

We have audited the accompanying consolidated financial statements of Nova Ljubljanska banka d.d., Ljubljana and its subsidiaries (NLB Group), consisting of the consolidated balance sheet as of 31 December 2002, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements for the year then ended. We have read the management's report on operations. These financial statements and the notes are the responsibility of the Bank's management. 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 issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the management's report on operations with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the NLB Group as of 31 December 2002, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

KPMG SLOVENIJA,
podjetje za revidiranje in poslovno svetovanje, d.o.o.



Vera Menard, B.Sc.Ec
Partner and Certified Auditor



Andrej Korinšek, B.Sc.Ec.
Certified Auditor and Managing Partner

Ljubljana, 14 april 2003

KPMG Slovenija, d.o.o.

CONSOLIDATED INCOME STATEMENT

IN THOUSANDS OF TOLARS

	Note	Year 2002	Year 2001
Interest and similar income	5	133,554,791	123,560,388
Interest and similar expense	5	(80,538,980)	(73,950,712)
Net interest and similar income		53,015,811	49,609,676
Income from capital and other investments	6	9,884,894	7,076,075
Fees and commissions income	7	32,097,780	22,179,270
Fees and commissions expense	7	(4,576,266)	(3,661,387)
Net fees and commissions		27,521,514	18,517,883
Gains from financial transactions	8	75,243,205	65,177,678
Losses from financial transactions	8	(77,828,421)	(64,438,844)
Net profit from finance transactions		(2,585,216)	738,834
Other operating income	9	8,761,628	7,137,481
Employee costs	10	(31,458,531)	(25,687,620)
Cost of material and services	11	(23,175,176)	(17,856,077)
Depreciation and revaluation expense from property, equipment and intangible assets	12	(7,432,313)	(7,145,813)
Other operating expenses	13	(6,710,127)	(2,928,118)
Net provisions for bad and doubtful debts and write offs less any recoveries	14	(13,387,020)	(7,731,220)
Net provision for general banking risks	36	1,023,129	(1,128,722)
OPERATING PROFIT		15,458,593	20,602,379
Extraordinary income	15	168,216	65,595
Extraordinary expenses	15	(51,610)	(3,621,626)
- extraordinary expenses		(51,610)	(24,756)
- extraordinary expenses due to capital revaluation		-	(3,596,870)
Extraordinary profit/(loss)		116,606	(3,556,031)
PROFIT BEFORE TAX		15,575,199	17,046,348
Tax on profit	16	(7,590,973)	(7,031,598)
Other taxes	16	(848,441)	(1,779,010)
Minority interest	38	(1,405,995)	(912,855)
NET PROFIT FOR THE PERIOD		5,729,790	7,322,885

CONSOLIDATED BALANCE SHEET

IN THOUSANDS OF TOLARS

	Note	31.12.2002	31.12.2001
Cash and balances with the Central Bank	17	68,105,764	98,727,898
Placements with, and loans to, other banks	18	153,947,905	143,745,096
Loans and advances to customers	19	902,385,834	820,030,828
Debt securities not held for trading	20	587,581,822	420,532,973
Securities held for trading	21	136,661,172	127,407,174
Investments in associated companies	22	7,996,439	7,351,720
Investments in other companies	23	4,883,673	4,138,080
Intangible assets	24	12,840,434	7,149,667
Property and equipment	25	61,050,049	61,252,002
Own shares	26	490,828	691,219
Other assets	27	28,170,033	28,856,167
Accrued income and deferred expenses	28	16,858,164	12,003,811
TOTAL ASSETS		1,980,972,117	1,731,886,635
Deposits and borrowings from banks	30	324,842,867	311,330,031
Deposits and borrowings from other customers	31	1,319,803,735	1,170,527,542
Debt securities	32	76,776,618	22,649,730
Other liabilities	33	24,234,650	25,149,526
Accruals and deferred income	34	21,350,115	19,279,268
Provisions for liabilities and charges	35	40,463,089	32,570,926
Provisions for general banking risks	36	5,387,174	6,306,006
Subordinated liabilities	37	35,999,716	14,703,414
Minority interest	38	24,844,446	25,310,667
Subscribed capital	39	15,364,030	15,364,030
Equity reserves	39	13,859,929	13,547,244
Profit reserves	39	60,641,512	56,883,374
Capital revaluation adjustment	39	11,972,446	11,791,771
Consolidation capital adjustment		6,284	-
Retained earnings	39	1,896,233	2,516,484
Net profit for the period	39	3,529,273	3,956,622
TOTAL LIABILITIES		1,980,972,117	1,731,886,635
Off-balance sheet	40	1,474,886,849	1,404,598,285

The Management Board approved the financial statements and notes to the financial statements.



Borut Stanič
Member of the
Management Board



Matej Narat
Member of the
Management Board



Pierre Van Keirsbilck
Member of the
Management Board



Andrej Hazabent
Member of the
Management Board



Marko Voljč
President of the
Management Board
& CEO

CONSOLIDATED CASH FLOW STATEMENT

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	162,162,783	136,606,996
Interest and similar income	111,753,594	101,462,931
Fees and commissions income	32,154,040	22,321,411
Recoveries from loans previously written off	1,334,980	264,827
Income from capital and other investments	9,059,928	5,981,479
Net profit from financial transactions	3,859,719	2,002,672
Other operating income	4,000,522	4,573,676
Outflows from operating activities	(142,614,888)	(121,955,520)
Interest and similar expenses	(73,977,812)	(61,576,874)
Fees and commissions expenses	(4,241,149)	(3,582,652)
Employee costs	(30,336,772)	(25,386,128)
Material and services costs	(20,509,953)	(18,069,523)
Other operating expenses	(4,872,943)	(6,067,392)
Taxation paid	(8,676,259)	(7,272,951)
Operating income before changes in operating assets and liabilities	19,547,895	14,651,476
(Increase)/decrease in operating assets	(88,207,370)	(75,910,276)
Net (increase)/decrease in loans to banks	(6,934,301)	852,635
Net increase in loans and advances to customers	(84,447,896)	(70,288,963)
Net decrease in securities held for trading	102,908	1,040,020
Net decrease/(increase) in other operating assets	3,071,919	(7,513,968)
Increase/(decrease) in operating liabilities	149,582,655	268,134,572
Net increase in deposits from banks	14,646,431	25,410,865
Net increase in deposits from other customers	139,771,581	236,880,721
Net (decrease)/increase in other operating liabilities	(4,835,357)	5,842,986
Net inflow or net outflow from operating activities	80,923,180	206,875,772
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows from investing activities	502,517,331	381,190,144
Sale of debt securities	497,843,108	378,926,496
Sale of investments in associated companies and other companies	3,409,874	544,951
Sale of property, equipment and intangible assets	1,264,349	1,718,697
Outflows from investing activities	(632,688,744)	(374,912,341)
Purchase of debt securities	(615,487,732)	(361,901,010)
Purchase of investments in associated companies and other companies	(637,208)	(325,964)
Purchase of property, equipment and intangible assets	(16,563,804)	(12,685,367)
Net inflow or net outflow from investing activities	(130,171,413)	6,277,803
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	465,623,055	586,390,116
Borrowings from banks and other customers	380,607,243	564,526,064
Increase in debt securities and subordinated liabilities	84,681,014	21,856,525
Sale of own shares	334,798	7,527
Outflows from financing activities	(398,777,540)	(635,750,953)
Dividends paid	(4,057,534)	(2,886,748)
Debts repayments	(383,714,297)	(613,925,626)
Decrease in debt securities and subordinated liabilities	(11,005,709)	(18,938,579)
Net inflow or net outflow from financing activities	66,845,515	(49,360,837)
Effect of exchange rate changes on cash and cash equivalents	8,317,989	14,986,523
CASH AND CASH EQUIVALENTS AT END OF PERIOD	589,961,795	563,599,123
Financial result for the period	25,915,271	178,779,261
Increase in cash and cash equivalents following the acquisition of subsidiaries	447,401	131,565,431
Cash and cash equivalents at beginning of period	563,599,123	253,254,431

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**Year 2002**

IN THOUSANDS OF TOLARS

	Subscribed capital	Equity reserves	Profit reserves	Own shares fund	Retained profits	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit for the period	Total share- holders equity	Exchange rate capital adjustment
Balance at 1 January 2002	15,364,030	13,547,244	56,753,093	130,281	2,516,484	11,791,771	-	3,956,622	104,059,525	-
Transfers to equity	-	312,685	301,010	-	53,976	-	180,675	5,802,004	6,650,350	212,589
Specific capital revaluation	-	-	-	-	-	-	180,675	-	180,675	-
Net profit for the period	-	-	-	-	-	-	-	5,729,790	5,729,790	-
Other	-	312,685	209,572	-	4,756	-	-	283	527,296	-
Increase in foreign exchange differences	-	-	91,438	-	49,220	-	-	71,931	212,589	212,589
										-
Transfers within equity	-	-	3,117,961	411,550	(621,035)	-	-	(2,908,476)	-	-
Allocation of net profit for the period	-	-	3,732,732	-	(462,893)	-	-	(3,269,839)	-	-
Transfer of capital items to own shares fund	-	-	-	491,575	-	-	-	(491,575)	-	-
Transfer from own shares fund to other capital items	-	-	-	(80,025)	80,025	-	-	-	-	-
Other	-	-	(614,771)	-	(238,167)	-	-	852,938	-	-
										-
Transfers from equity	-	-	(21,380)	(51,003)	(53,192)	-	-	(3,314,593)	(3,440,168)	(79,866)
Dividends paid	-	-	-	-	-	-	-	(3,276,996)	(3,276,996)	-
Other	-	-	(20,696)	(51,003)	-	-	-	(11,607)	(83,306)	-
Decrease in foreign exchange differences	-	-	(684)	-	(53,192)	-	-	(25,990)	(79,866)	(79,866)
Balance at 31 December 2002	15,364,030	13,859,929	60,150,684	490,828	1,896,233	11,791,771	180,675	3,535,557	107,269,707	132,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Nova Ljubljanska banka d.d., Ljubljana ("the Bank" or "NLB") is incorporated in Slovenia as a joint stock company providing universal banking services. The majority shareholders of Nova Ljubljanska banka d.d. are the Republic of Slovenia holding 35.71% of the shares and KBC Bank N.V., Brussels ("KBC Bank") holding 34% of the shares.

The address of its registered office is: Nova Ljubljanska banka d.d., Ljubljana, Trg republike 2, Ljubljana.

The increase in the general price index for the year 2002 was 7.2% (2001: 7%). The exchange rate changed from 221.4 tolar to the euro at 31 December 2001, to 230.3 tolar to the euro at 31 December 2002, and from 250.9 tolar to the US dollar at 31 December 2001, to 221.1 tolar to the US dollar at 31 December 2002.

1. SIGNIFICANT ACCOUNTING POLICIES

The Nova Ljubljanska banka d.d., Ljubljana Group ("the Group") consolidated financial statements have been prepared in accordance with the Slovenian Accounting Standards (SAS), and the Bank of Slovenia's regulations, represented by the Decree on the Classification of Balance Sheet and Off-Balance Sheet Asset Items of Banks and Savings Banks, the Decree on Establishing Specific Provisions of Banks and Savings Banks, the Decree on Supervision of Banks and Savings Banks on Consolidated Basis, and other Bank of Slovenia's regulations.

The principal accounting policies applied by the Group for the preparation of the consolidated financial statements are set out below.

a) Consolidation

The consolidated financial statements include the financial statements of Nova Ljubljanska banka d.d., Ljubljana and its subsidiaries, which are set out in Note 42.

Subsidiary undertakings, which are those companies in which NLB, directly or indirectly, has an interest of more than half of the voting rights, or otherwise has the power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NLB and are no longer consolidated from the date of disposal. Intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests.

On acquisition of a subsidiary, NLB calculates the difference between the fair value of the assets and liabilities acquired

and the fair value of the consideration given. Where the consideration given exceeds the net assets acquired, goodwill arises, this is amortised to the income statement over a period of five years.

Investments in associated undertakings are accounted for using the equity method of accounting. These are undertakings in which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

Equity accounting involves recognising in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on acquisition.

Regarding associates, negative goodwill is included in the carrying amount of an investment in an associate over a period of five years.

Jointly controlled entities are companies established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the jointly controlled entity's assets, liabilities, income and expenses with items of a similar nature on a line-by-line basis.

b) Translation of the financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated to tolar at mid - market exchange rate of the Bank of Slovenia ruling at the balance sheet date. The income and expenses of foreign subsidiaries are translated to tolar at average exchange rate of the Bank of Slovenia for the reporting period. Differences between mid - market, ruling at the balance sheet date, and average exchange rate of the Bank of Slovenia are reported under equity as consolidation capital adjustment.

c) Assets and liabilities in foreign currency

Assets and liabilities in foreign currency are converted into the tolar equivalent at the mid-market exchange rate of the Bank of Slovenia as at the last day of the accounting period. Foreign exchange gains and losses are included in the income statement.

d) Interest, fees and commissions

Interest, fees and commissions expenses are included in the income statement as soon as they are accrued, while interest, fees and commissions income is included in the income statement depending on the grading of the client. According to the Bank of Slovenia's regulations the income from performing assets (A and B grading groups) is included in the income statement as soon as it occurs, except for interest income from

mortgage loans to clients classified in B grading group. Income from these loans and income from non-performing loans (C, D and E grading groups) is excluded until paid, and reported as allowances for bad and doubtful interest under other assets. In the cash flow statement interest is presented as cash flows from operating activities.

e) Investments in securities

Investments in securities held for trading and investments in debt securities available for sale are initially recorded at cost. Subsequently they are stated at lower of the cost or fair value. The fair value is based on a quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of the securities is estimated using discounted cash flow techniques or it is assessed in accordance with the grading group of the issuer. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for a financial instrument with similar terms and conditions.

Held to maturity securities are initially measured at cost. After initial recognition they are stated in the balance sheet at the amount of the principal outstanding less any impairment.

The Group uses FIFO method for determination of the profit or loss on derecognition of securities.

f) Own shares

Own shares constitute a part of the company's share capital, presented as assets in the balance sheet. Gains and losses on sale of own shares are credited or charged to reserves.

g) Investments in other companies

Investments in other companies are initially measured at cost, being the amount of cash paid or the fair value of consideration given. Subsequently they are accounted for using the cost method. Profits are recognised in the income statement only to the extent of dividends received.

If there is an indication that investments may be impaired each individual investments is assessed. Any impairment is recognised immediately in the income statement.

h) Derivative financial instruments

For the accounting purposes derivative financial instruments are designated for hedging or for trading purpose. The contract and notional amount of derivative financial instruments is recorded in the off - balance sheet, while their fair values are presented as other assets when favourable to the Group or other liabilities when unfavourable to the Group.

Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate.

Loss on derivative financial instruments, treated as held for trading, is recognised in the income statement immediately. Gains are recognised in the income statement when they are realized.

Changes in the fair value of derivative financial instruments that are designated as the fair value hedge are recognised in the income statement on the same basis as the corresponding change in the fair value of the hedged item.

Changes in the fair value of derivative financial instruments that are designated as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are presented in the equity as specific capital revaluation adjustment, while the ineffective portion is immediately reported in the income statement.

Certain derivative financial instruments, while providing effective economic hedges, do not qualify for hedge accounting under the specific accounting rules and are therefore treated as derivatives held for trading.

i) Finance lease

Assets leased out under a finance lease are presented in the balance sheet as receivables at the amount equal to the net investments in the lease, less any impairment.

j) Loans and borrowings

Loans and borrowings are initially recognised at the amount of the cash given or received.

Loans are stated in the balance sheet at the amount of the principal outstanding, increased by interest capitalised where appropriate, less any provision for unrecoverable amounts.

Borrowings are presented in the balance sheet at the amount of the principal outstanding, increased by interest capitalised where appropriate.

k) Provisions

In accordance with the Bank of Slovenia's regulation the Group is required to establish specific risk provisions and provisions for general banking risks.

Specific provisions are established on loans, advances and off-balance sheet items in respect of credit risk on the basis of provisioning rates specified by the Bank of Slovenia's Decree on the Classification of Balance Sheet and Off-Balance sheet Items of Banks and Saving Banks. Specific credit risk provisions on loans and advances to customers

Notes to the Consolidated Financial Statements

classified in the rating group B, C, D or E are stated on the asset side of the balance sheet as allowances for bad and doubtful loans, while specific credit risk provisions for A rating group are presented on the liability side. Specific credit risk provisions established on off-balance sheet items and specific country risk provisions are also stated on the liability side of the balance sheet.

Specific provisions for other foreseeable risks, stated on the liability side of the balance sheet, are established in respect of interest rate risk and foreign exchange risk.

General banking risk provisions, stated on the liability side of the balance sheet, are established for the purpose of protecting against risks arising from the Group's overall operations.

According to the Decree on the Supervision of Banks and Savings Banks on Consolidated Basis and the Decree on Establishing Specific Provisions of Banks and Savings Banks the NLB as a parent company is required to set aside additional amounts for specific provisions in the consolidated financial statements for assets and off-balance sheet items of its subsidiaries.

l) Uncollectable loans and advances

Uncollectable loans and advances are written off, according to internal written procedures of the Group, after all necessary procedures for recovery have been completed. Any eventual subsequent repayments of loans and advances previously written off are recognised as income.

m) Provisions for liabilities and charges

Provisions for obligations that are expected to occur in the period exceeding one year are recognised in the financial statements when:

- there is a present obligation (legal or constructive) as a result of a past event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation,
- a reliable estimate can be made of the amount of the obligation.

n) Accruals and deferred income and expenses

Income and expenses are recognised when they occur and not as cash is received or paid. They are presented as accruals in a separate balance sheet position.

o) Property and equipment

All property and equipment is initially recorded at cost. The cost of property and equipment comprises purchase price including import duties, initial delivery and installation costs.

At each balance sheet date the Group assesses whether there is any indication that assets may be impaired. If any such indication exists the recoverable amount is estimated. Recoverable amount is the higher of net selling price and value in use. When value in use exceeds assets carrying amount that indicates that assets are not impaired. The Group examines whether to revalue the property in case of significant increase in market values.

Depreciation of property and equipment is provided on a straight-line basis at rates designed to write off cost or valuation of buildings and equipment over their estimated useful lives.

The following annual depreciation rates are applied:

	Year 2002	Year 2001
in %		
Buildings	2 - 5	2 - 10
Computers	14.3 - 50	20 - 50
Furniture and equipment	10 - 33.3	10 - 3.3
Motor vehicles	20 - 40	20 - 40
Other assets	10 - 33.3	10 - 33.3

Land and works of art are not depreciated.

Property and equipment is depreciated from the first day of next month after it was brought into use.

Subsequent expenditures result in an increase of an asset's carrying amount when it is probable that future economic benefits will exceed the originally assessed benefits or in an extension of the useful life of an asset.

The same accounting policies are applied for assets held by the Group under a finance lease.

p) Investment property

Investment property includes land and buildings owned by the Group and leased out under operating lease. Investment property is accounted for using the same accounting policies adopted by the Group for property and equipment.

According to the Bank of Slovenia's methodology investment property is presented as other assets in the balance sheet.

q) Intangible assets

Intangible assets are initially recognised at cost including any directly attributable costs. Intangible assets are subsequently impaired if their carrying amount exceeds their value in use. Amortisation is provided on a straight-line basis at rates designed to write off the cost of intangible assets over their estimated useful lives. The current system software, and the new information technology system are amortised over a peri-

od of ten years and other software over a period of four years. Intangible assets are not amortised until they are brought into use.

r) Inventories

Inventories include costs of construction projects where the Group is an investor and property held for sale in the ordinary course of business. Inventories are written down when their carrying amount exceeds their net realisable value.

s) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with central bank, securities held for trading, loans to banks and debt securities not held for trading with maturity up to 90 days.

t) Tax on profit and balance sheet tax

Slovenian corporate tax is provided on taxable profits at the rate of 25%. Foreign taxes are provided for in accordance with local tax laws and accounting principles.

In 2002 the Slovenian balance sheet tax is calculated as a 3% levy on certain balance sheet items. According to Slovenian legislation the maximum balance sheet tax is limited to 50% of pre-tax profit. Where the 3% levy exceeds 50% of profits, the lower tax charge is payable.

u) Funds managed on behalf of third parties

Assets and liabilities managed on behalf of third parties are stated on net basis.

2. CHANGE IN THE SCOPE OF CONSOLIDATION

Union Invest Capital a.s., Ostrava, Czech Republic which provides factoring and forfeiting services, became a subsidiary of NLB in April 2002 when NLB acquired a 100% share of the company. In May 2002 the company was renamed as LB Factoring CZ, a.s., Ostrava, Czech Republic and included in consolidated financial statements during the year 2002. On the consolidation goodwill amounting to the 4,210 thousand tolars was accounted for.

At the end of April 2002 LB Propria d.o.o., Ljubljana, the subsidiary of LB Hipo d.o.o., Ljubljana acquired the majority interest in company Golf Arboretum d.o.o., Volčji Potok, which became a new subsidiary of the NLB Group. For the year 2001 Golf Arboretum d.o.o., Volčji Potok was included in consolidated financial statements as an associate. In November 2002 Slovenska izvozna družba d.d., Ljubljana

additionally paid in capital of LB Factors d.d., Ljubljana a subsidiary of the NLB Group. Due to the contractually agreed sharing of control over economic activities of the company, LB Factors became a jointly controlled company. In the consolidated income statement for the year 2002 LB Factors is treated as a wholly owned subsidiary, while in consolidated balance sheet it is regarded as a jointly controlled company.

LHB Internationale Handelsbank AG, Frankfurt Group and Tutunska banka AD, Skopje were consolidated for the first time at the end of the year 2001. As fully consolidated subsidiaries they were included in the balance sheet for the year 2001, while they were included in the income statement as associates accounted for using the equity method. The consolidated income statement for the year 2002 for the first time includes LHB Internationale Handelsbank AG, Frankfurt Group and Tutunska banka AD, Skopje as fully consolidated subsidiaries.

In 2002 NLB sold the subsidiary LBS Bank-New York, New York (LBS) to KBC Bank N.V. (KBC). LBS is included in the consolidated income statement for the period from 1 January to 31 August 2002. LBS bank with the net assets of 4,916,819 thousand tolars was sold for 4,930,082 thousand tolars.

Due to contractual agreement the Bank assumed the obligation to cover expenses related to liquidation process of LBS Bank. Expenses of the subsidiary liquidation process in the amount of 663,212 thousand tolars are presented as accrued expenses. The Group also redeemed investments in the amount of 65,121 thousand US dollars from LBS Bank.

ICJ d.o.o., Domžale, founded on 10 October 1999 for providing real estate operation, engineering and consulting, was included in the consolidated income statement as an associated company by using the equity method of accounting for the first time for the year 2002.

3. NEW SLOVENIAN ACCOUNTING STANDARDS

New Slovenian Accounting Standards became operative for financial statements covering periods beginning after 1 January 2002. The main changes resulting from adoption of the new Slovenian Accounting Standards and amended regulations of the Bank of Slovenia are:

- the revised Slovenian Accounting Standards abandoned the system of maintaining the capital in constant purchasing power units if exchange rate euro/tolar doesn't exceed the growth of 5.5% in previous year,
- the previous requirements of the Bank of Slovenia to establish provisions on investments in securities and investments

Notes to the Consolidated Financial Statements

in other companies have been replaced with principles and rules for measurement and valuation in accordance with the new Slovenian Accounting Standards.

New methodology rules for the preparation of financial statements resulted in the following changes in the balance sheet:

- provisions established on overdrafts are presented on the assets side,
- suspended income is presented as allowances for bad and doubtful interest under other assets,
- fair values of derivative financial instruments are presented as other assets or other liabilities,
- investment property and property acquired for debt repayment is presented as other assets.

Changes in presentation of the income statement are:

- revaluation interest is presented as interest income or expenses,
- foreign exchange differences are presented as gains or losses from financial transactions,
- interest income from debt securities held for trading is presented as income from capital and other investments.

In accordance with official conclusion of The Slovenian Institute of Auditors items of the balance sheet and the income statement for the year 2001 are not restated but are adjusted to new methodology of presentation of the financial statements. Items of the revaluation income statement are presented as part of income or expenses to which they relate, except for revaluation of capital, property and equipment and capital investments, which is presented in the income statement as extraordinary expense due to capital revaluation.

Cash flow statement is, due to conceptually new methodology, restated for the year 2001.

4. POST BALANCE SHEET EVENTS

From the balance sheet date until the completion of this report, no such event has occurred that would require the restatement of the completed consolidated financial statements or any additional disclosure.

5. INTEREST INCOME AND EXPENSE

a) Analysis by type of assets and liabilities

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Interest income		
Deposits with Central Bank	394,632	290,930
Placements with, and loans to, other banks	1,486,994	1,694,509
Loans and advances to customers	93,808,090	88,370,693
Deposits	2,611,500	3,958,571
Debt securities not held for trading	35,025,207	28,953,227
Other assets	228,368	292,458
TOTAL	133,554,791	123,560,388
Interest expense		
Demand deposits	4,876,307	3,708,427
Short-term deposits	40,207,160	36,050,688
Long-term deposits	23,995,023	21,490,847
Borrowings	8,160,935	9,382,383
Debt securities	3,148,446	3,000,145
Other liabilities	151,109	318,222
TOTAL	80,538,980	73,950,712
NET INTEREST AND SIMILAR INCOME	53,015,811	49,609,676

b) Analysis by sector

	IN THOUSANDS OF TOLARS			
	Year 2002		Year 2001	
	Income	Expenses	Income	Expenses
Enterprises	41,351,602	12,677,235	45,885,760	14,218,138
Government departments and agencies	27,739,876	4,845,702	28,318,122	6,135,723
Banks	22,852,355	12,862,505	14,638,110	11,053,163
Citizens	27,840,155	38,428,993	28,837,167	33,747,191
Other financial organisations	1,175,568	8,235,493	1,088,438	6,785,188
Non-residents	10,130,289	2,690,997	3,162,002	1,260,857
Non-profit service providers to households	63,989	691,402	284,965	747,467
Default interest	2,400,957	106,653	1,345,824	2,985
TOTAL	133,554,791	80,538,980	123,560,388	73,950,712

6. INCOME FROM CAPITAL AND OTHER INVESTMENTS

	IN THOUSANDS OF TOLARS	
	Year 2002	Year 2001
Income from investments in associated companies		
- banks	1,328,083	1,547,076
- enterprises	40,736	69,879
Income from investments in other companies		
- banks	403	115,110
- enterprises	10,931	148,278
- other financial organisations	27,272	14,253
Income from securities held for trading		
- interest income	8,245,639	4,986,499
- dividends received	231,830	194,980
TOTAL	9,884,894	7,076,075

7. INCOME AND EXPENSE FROM FEES AND COMMISSIONS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Fees and commissions income:		
- payments	9,546,339	6,148,350
- intermediation	9,370,519	4,573,594
- administrative services	5,539,397	4,663,120
- lending	3,611,767	2,786,941
- guarantees	2,466,618	2,668,116
- investment funds	1,149,797	977,207
- depositing valuables and safe custody	267,030	241,913
- other services	146,313	120,029
TOTAL	32,097,780	22,179,270
Fees and commissions expense:		
- banking services	3,421,393	2,815,954
- intermediation	420,261	336,645
- payments	212,832	218,031
- brokerage	189,019	93,796
- other services	332,761	196,961
TOTAL	4,576,266	3,661,387
NET FEES AND COMMISSIONS	27,521,514	18,517,883

Fees and commissions income for the year 2002 includes the amount of 3,028,993 thousand tolars received from a major multi-national company for providing tolars for the purchase of shares of a major Slovenian company.

8. NET (LOSS)/PROFIT FROM FINANCIAL TRANSACTIONS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Income from financial transactions		
Income from dealing in securities	3,924,824	1,791,929
Income from valuation of securities		
- securities not held for trading	857,693	183,396
- securities held for trading	621,244	483,174
- investments in other companies	899,736	31,198
- other	38,635	-
Foreign exchange differences	43,617,584	46,998,252
Income from derivative financial instruments	19,517,244	8,774,952
Income from dealing in foreign currency	5,766,245	6,914,777
TOTAL	75,243,205	65,177,678
Losses from financial transactions		
Expenses from dealing in securities	741,746	1,642,491
Expenses from valuation of securities		
- securities not held for trading	687,504	56,474
- securities held for trading	3,789,611	1,304,654
- investments in other companies	2,400,874	117,459
- investments in associated companies	30,656	100,349
- disposal of subsidiary	722,000	-
- other	222,372	178,331
Foreign exchange differences	47,004,743	48,024,371
Expenses in derivative financial instruments	19,191,889	7,925,873
Expenses in dealing in foreign currency	3,037,026	5,088,842
TOTAL	77,828,421	64,438,844
NET (LOSS)/PROFIT FROM FINANCE TRANSACTIONS	(2,585,216)	738,834

In accordance with the changes to the Slovenian Accounting Standards and amended regulations of the Bank of Slovenia, the Group changed the presentation of impairment losses on investments in securities and investments in other companies in the year 2002. Prior to adoption of the renewed accounting standards the Group was, according to the Bank of Slovenia's regulations, required to establish provisions in respect of losses on financial investments. In the income statement for the year 2002 impairment losses on financial investments are presented as losses from financial transaction. Provisions established in previous periods were released and presented as income in the year 2002 (see notes 20, 21, 22, 23 and 29).

The increase in income and expenses from trading in derivative financial instruments is results mainly from the increase in currency swaps with Bank of Slovenia (see note 40b).

9. OTHER OPERATING INCOME

a) Analysis by type

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Income from non-banking services	3,187,511	3,998,528
Income from sales of products and merchandise	4,121,509	1,518,866
Income from sale of property and equipment	238,210	301,448
Income from investment property rents	585,768	435,581
Other income	628,630	883,058
TOTAL	8,761,628	7,137,481

10. EMPLOYEE COSTS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Gross salaries	22,155,733	18,082,574
Social security costs	5,049,645	4,235,552
Other employee costs	4,253,153	3,369,494
TOTAL	31,458,531	25,687,620

11. COST OF MATERIALS AND SERVICES

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Services	9,550,659	6,761,880
Maintenance	4,188,975	3,574,846
Materials	3,640,519	2,612,198
Rents	2,170,790	2,014,482
Advertising	1,323,216	1,155,947
Insurance	944,823	573,906
Travel costs	563,195	423,648
Entertainment expenses	357,576	354,051
Education and scholarships	338,548	273,101
Other administrative expenses	96,875	112,018
TOTAL	23,175,176	17,856,077

12. DEPRECIATION AND REVALUATION EXPENSE FROM PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Depreciation of property and equipment and intangible assets	6,059,378	5,193,123
Depreciation of intangible assets	977,363	611,258
Revaluation expense from equipment and intangible assets	117,092	1,174,633
Goodwill	278,480	166,799
TOTAL	7,432,313	7,145,813

In the year 2002 the Group decreased depreciation rates from 25 % to 14,3 % for automated teller machines and from 20 % to 10 % for communication equipment due to extension of their estimated useful lives. The adoption of the new depreciation rates resulted in a decrease in depreciation expenses by 264,955 thousand tolars.

13. OTHER OPERATING EXPENSES

	IN THOUSANDS OF TOLARS	
	Year 2002	Year 2001
Cost of sold merchandise	3,944,429	2,177,340
Long term provisions made	774,600	43,082
Taxes	519,281	117,467
Membership fees	465,680	-
Other expenses	307,115	284,522
	699,022	305,707
TOTAL	6,710,127	2,928,118

In 2002 the Group made additional provisions for employment-restructuring program of 500,000 thousand tolars and additional provisions for pensions of 229,259 thousand tolars.

14. NET PROVISIONS FOR BAD AND DOUBTFUL DEBTS AND WRITE OFFS LESS ANY RECOVERIES**a) Provisions and write offs**

	IN THOUSANDS OF TOLARS			
	Year 2002		Year 2001	
	Provisions made	Provisions released	Provisions made	Provisions released
Write offs	5,043,702	-	1,992,287	-
Recoveries	-	1,334,980	-	3,593,310
Provisions for A graded balance sheet and off-balance sheet assets	10,781,335	12,876,168	9,307,801	9,165,685
Provisions for other off-balance sheet assets	20,147,226	16,291,234	18,610,166	18,260,141
Country risk provisions	10,317,970	4,379,362	1,271,215	-
Provisions for balance sheet assets, classified in other credit rating groups:				
- loans to banks	7,738,039	7,532,925	4,592,497	4,343,049
- loans to other customers	55,466,104	51,806,844	37,349,854	32,092,797
- debt securities not held for trading	-	370,180	645,251	870,005
- securities held for trading	-	639,116	1,652,229	1,543,783
- investments in associated companies	-	270	-	-
- investments in other companies	-	2,303,579	1,979,397	1,411,469
- other loans	3,118,527	3,926,096	4,990,697	3,657,711
- interest claims	163,579	-	-	-
Provisions for offsetting by groups	7,374	10,867	273,547	584,798
Provisions for other foreseeable risks	2,356,989	48	-	-
TOTAL a)	115,140,845	101,471,669	82,664,941	75,522,748
TOTAL	(13,669,176)		(7,142,193)	

Specific provisions for country risk were in 2001 established as part of specific provisions and were stated on the asset side of the balance sheet.

b) Other provisions

IN THOUSANDS OF TOLARS

	Year 2002		Year 2001	
	Provisions made	Provisions released	Provisions made	Provisions released
Negative goodwill	-	575,790	-	226,928
Other long-term provisions	500,000	206,366	816,083	128
TOTAL b)	500,000	782,156	816,083	227,056
TOTAL a) + b)	115,640,845	102,253,825	83,481,024	75,749,804
TOTAL	(13,387,020)		(7,731,220)	

15. EXTRAORDINARY PROFIT/(LOSS)

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Extraordinary income		
Indemnities, rewards and similar income	168,216	65,595
TOTAL	168,216	65,595
Extraordinary expenses		
Expenses due to capital revaluation	51,610	24,756
	-	3,596,870
TOTAL	51,610	3,621,626
EXTRAORDINARY PROFIT/(LOSS)	116,606	(3,556,031)

16. TAX

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Tax on profit	7,143,019	6,130,335
Balance sheet tax	848,441	1,779,010
Share of tax of associated companies	447,954	901,263
TOTAL	8,439,414	8,810,608

17. CASH AND BALANCES WITH THE CENTRAL BANK

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	Tolars	Foreign currency	Tolars	Foreign currency
Cash	13,676,661	7,054,894	11,053,647	45,721,154
Balances with the Central Bank	33,450,945	6,923,264	36,533,800	5,419,297
Other deposits	7,000,000	-	-	-
	54,127,606	13,978,158	47,587,447	51,140,451
TOTAL	68,105,764		98,727,898	

18. PLACEMENTS WITH, AND LOANS TO, OTHER BANKS**a) Maturity analysis**

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Short-term loans		
- in tolar	2,279,735	3,114,091
- in foreign currency	135,197,230	124,789,684
Long-term loans		
- in tolar	299,318	446,463
- in foreign currency	20,130,739	17,507,900
Current portion of long-term loans		
- in tolar	72,289	1,043,130
- in foreign currency	2,378,775	3,296,479
	160,358,086	150,197,747
Provisions	(6,410,181)	(6,452,651)
TOTAL	153,947,905	143,745,096

For a detailed maturity analysis of Placements with, and loans to other banks refer to note 46 - Balance sheet maturity analysis.

b) Analysis by type of loan

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Demand deposits	14,412,979	19,926,505
Time deposits	96,332,282	68,665,960
Loans	46,882,883	58,261,504
Called guarantees	23,415	22,512
Other investments	2,706,527	3,321,266
	160,358,086	150,197,747
Provisions	(6,410,181)	(6,452,651)
TOTAL	153,947,905	143,745,096

c) Geographical analysis

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Slovenia	22,947,736	48,594,829
OECD countries	116,225,162	90,837,929
Other countries	14,775,007	4,312,338
TOTAL	153,947,905	143,745,096

d) Loans to associated and other related banks

Loans extended to associated and other related banks as at 31 December 2002 amounted to 9,795,087 thousand tolar (13,139,552 thousand tolar as at 31 December 2001).

e) Analysis of movements

IN THOUSANDS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	127,027,557	16,717,539	83,446,670	7,684,751
Additional provisions	-	-	(218,319)	(219,100)
Consolidation of new subsidiaries	425,188	-	46,651,239	10,642,732
Exchange differences on opening balance of subsidiaries	1,326,491	414,297	1,200,639	229,909
Increase				
- loans made	6,658,624,891	17,209,725	14,422,446,675	1,142,934
- interest added to principal	398,840	-	1,029,389	45,435
- exchange differences	(149,223)	(193,766)	6,357,534	298,973
Decrease				
- repayments	(6,652,726,508)	(9,259,153)	(14,436,452,437)	(180,009)
- write offs	(121,401)	-	(112,471)	-
Current portion of long-term loans	3,497,716	(3,497,716)	2,693,325	(2,693,325)
Provisions	2,108,471	(2,313,585)	(14,687)	(234,761)
Disposal of subsidiary	(4,311,440)	(1,230,018)	-	-
Balance at 31 December	136,100,582	17,847,323	127,027,557	16,717,539
	153,947,905		143,745,096	

19. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis by type of customer

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In tolar				
- enterprises	132,348,540	158,969,896	135,230,731	175,694,764
- government departments and agencies	6,192,259	81,589,311	10,205,415	63,670,201
- citizens	39,649,127	177,770,270	36,568,513	170,158,916
- other financial organisations	4,976,176	2,868,728	6,256,235	2,813,233
- non-profit household service providers	266,528	332,366	206,776	192,391
In foreign currency				
- enterprises	45,827,586	167,410,356	46,473,913	131,386,159
- government departments and agencies	63,464	1,329,227	119,456	1,532,090
- citizens	148,851	2,079,989	120,093	1,730,447
- other financial organisations	283,117	3,034,499	12,113	1,302,811
- non-residents	68,221,379	67,365,834	46,377,416	44,608,708
- non-profit household service providers	-	9,435	-	32,930
Current portion of long-term loans				
- in tolar	113,003,007	(113,003,007)	110,783,900	(110,783,900)
- in foreign currency	47,001,708	(47,001,708)	33,392,468	(33,392,468)
	457,981,742	502,755,196	425,747,029	448,946,282
Provisions	(40,874,918)	(17,476,186)	(40,323,502)	(14,338,981)
	417,106,824	485,279,010	385,423,527	434,607,301
TOTAL	902,385,834		820,030,828	

The total amount of non-performing loans (C, D and E grading groups) amounted to 68,310,239 thousand tolars as at 31 December 2002, while loans overdue amounted to 33,040,641 thousand tolars. Interest income from non-performing loans, not recognised as income, amounted to 6,238,931 thousand tolars as at 31 December 2002.

b) Analysis by sector

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Citizens	206,805,713	190,399,996
Industry and mining	221,081,280	190,643,490
Trade and finance	175,771,727	157,842,274
Services	121,291,689	93,689,231
Ministries	59,990,518	50,006,279
Energy	22,271,094	32,194,595
Transport and communication	80,799,600	92,069,000
Small businesses	25,396,815	24,545,215
Construction	27,636,616	20,909,552
Agriculture, forestry and fishery	11,224,651	8,589,619
Other	8,467,235	13,804,060
	960,736,938	874,693,311
Provisions	(58,351,104)	(54,662,483)
TOTAL	902,385,834	820,030,828

c) Guaranteed loans

The loans guaranteed by the Republic of Slovenia and Slovenian banks are:

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
- with guarantee of the Republic of Slovenia	86,799,343	101,033,827
- with guarantee of other banks	9,556,335	3,049,687
TOTAL	96,355,678	104,083,514

d) Analysis by type of advance

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Loans	857,950,405	808,600,354
Overdrafts	57,480,480	31,539,624
Finance lease receivables	21,696,887	19,396,112
Called guarantees	2,586,665	3,034,908
Other investment	21,022,501	12,122,313
	960,736,938	874,693,311
Provisions	(58,351,104)	(54,662,483)
TOTAL	902,385,834	820,030,828

e) Loans to associated and other related parties

Loans extended to associated and other related parties as at 31 December 2002 amounted to 8,995,259 thousand tolars (9,850,389 thousand tolars as at 31 December 2001).

f) Analysis of movements

IN THOUSANDS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	385,423,527	434,607,301	286,006,627	309,942,048
Additional provisions	-	-	(1,752,215)	(871,789)
Consolidation of new subsidiaries	4,062,117	556,571	74,132,768	60,032,243
Exchange differences on opening balance of subsidiaries	1,852,181	2,211,908	1,740,366	1,557,774
Increase				
- loans made	878,983,157	262,537,641	546,233,720	225,481,933
- interest added to principal	8,686,421	18,658,162	3,953,913	19,237,596
- exchange differences	897,674	2,382,258	5,380,930	8,600,235
Decrease				
- repayments	(1,037,635,767)	(36,327,716)	(680,933,421)	(31,990,965)
- write offs	(3,082,689)	(239,618)	(1,419,970)	(43,908)
Transfer from subsidiary to joint venture	(872,630)	240,039	-	-
Disposal of subsidiary	(5,357,422)	(11,538,021)	-	-
Current portion of long-term loans	182,663,099	(182,663,099)	157,094,474	(157,094,474)
Provisions	1,487,156	(5,146,416)	(5,013,665)	(243,392)
Balance at 31 December	417,106,824	485,279,010	385,423,527	434,607,301
	902,385,834		820,030,828	

20. DEBT SECURITIES NOT HELD FOR TRADING

a) Analysis by type of securities, available for sale

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
- certificates of deposit of the Bank of Slovenia	226,501,053	-	185,672,439	-
- certificates of deposit of other banks	254,440	-	552,997	-
- bonds of the Republic of Slovenia	-	2,640,545	-	2,089,028
- bonds of the Republic of Croatia	-	214,666	-	283,447
- bonds of the Republic of Macedonia	-	39,464	-	46,074
- bonds of the Republic of Bosnia and Herzegovina	-	1,430,755	-	795,466
- other securities	-	49,629,314	4,962,804	11,089,892
In tolars				
- bonds of the Republic of Slovenia	-	92,044,655	-	115,935,357
- certificates of deposit of the Bank of Slovenia	182,416,189	-	58,372,001	-
- treasury bills	-	-	10,429,778	-
- other securities	-	1,389,418	-	1,110,004
Current portion	4,117,422	(4,117,422)	3,789,529	(3,789,529)
	413,289,104	143,271,395	263,779,548	127,559,739
Provisions	-	-	-	(553,119)
	413,289,104	143,271,395	263,779,548	127,006,620
TOTAL a)	556,560,499		390,786,168	

The carrying amount of debt securities not held for trading as at 31 December 2002 is lower than the market value by 2,428,353 thousand tolars .

Other securities include bonds of Factor banka d.d. in the total amount of 150,000 thousand tolars which represent a subordinated debt.

b) Analysis by type of securities, held to maturity

IN THOUSANDS OF TOLARS				
	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
- bonds of the Republic of Slovenia	-	2,179,894	-	2,825,117
- other bonds	-	22,858	-	-
In tolars				
- bonds of the Republic of Slovenia				
- for paid foreign currency deposits	-	28,818,571	-	26,921,688
Current portion	484,421	(484,421)	518,352	(518,352)
TOTAL b)	484,421	30,536,902	518,352	29,228,453
TOTAL	31,021,323		29,746,805	
TOTAL a) + b)	587,581,822		420,532,973	

The total amount of debt securities not held for trading as at 31 December 2002 includes listed securities in the amount of 90,294,193 thousand tolars.

c) Analysis of movements

IN THOUSANDS OF TOLARS				
	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	264,297,900	156,235,073	136,232,424	154,726,384
Consolidation of new subsidiaries	-	-	19,441,398	3,456,642
Exchange difference on opening balance of subsidiaries	80,672	478,794	35,206	1,674,422
Increase				
- acquisition of securities	604,572,716	2,080,834	361,901,010	10,250,503
- foreign exchange difference and revaluation	7,844,830	8,358,097	8,386,857	10,281,375
- elimination of impairment and provisions	-	370,180	-	224,754
Decrease				
- sale of securities	(444,545,817)	(11,611,475)	(261,881,729)	(17,052,907)
- valuation	(12)	606,705	(1,489)	104,297
Transfers	(28,884,020)	32,165,440	(3,960,745)	(3,285,429)
Current portion of long-term securities	11,570,851	(11,570,851)	4,144,968	(4,144,968)
Disposal of subsidiary	(1,163,541)	(3,304,554)	-	-
	413,773,579	173,808,243	264,297,900	156,235,073
Balance at 31 December	587,581,822		420,532,973	

21. SECURITIES HELD FOR TRADING

a) Analysis by type of securities

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Bonds		
- Republic of Slovenia	69,896,889	18,998,981
- other bonds	32,294,906	73,017,146
Shares	18,521,330	17,992,795
Treasury bills	14,998,860	501,477
Other securities	949,187	17,535,891
	136,661,172	128,046,290
Provisions	-	(639,116)
TOTAL	136,661,172	127,407,174

The total amount of securities held for trading as at 31 December 2002 includes listed securities in the amount of 97,476,814 thousand tolars (109,946,939 thousand tolars as at 31 December 2001).

The portfolio of securities held for trading as at 31 December 2002 includes 2,336 thousand tolars (0 tolars as at 31 December 2001) of securities issued by associated and other related companies. Other securities include NLB own bonds in the amount of 3,401 thousand tolars.

Other securities include bonds of Zavarovalnica Maribor d.d., Maribor in the amount of 560,670 thousand tolars which represent a subordinated debt.

The carrying amount of securities held for trading as at 31 December 2002 is lower than the market value by 5,445,360 thousand tolars.

b) Analysis of movements

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	127,407,174	48,352,092
Consolidation of new subsidiaries	-	47,817,444
Exchange difference on opening balance of subsidiaries	1,216,811	-
Increase		
- acquisition of securities	246,960,207	120,891,288
- interest added to principal and foreign exchange difference	955,073	3,077,982
- elimination of provisions	639,116	(108,446)
Decrease		
- sale of securities	(234,242,253)	(98,923,801)
- valuation at fair value	(2,993,536)	(539,458)
- write offs	-	(11,884)
Transfers	(3,281,420)	7,246,174
Disposal of subsidiary	-	(394,217)
Balance at 31 December	136,661,172	127,407,174

22. INVESTMENTS IN ASSOCIATED COMPANIES

a) Analysis by type of investment

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
In tolar		
- banks	5,020,072	4,347,549
- other financial organisations	203,965	236,220
- enterprises	570,084	592,921
In foreign currency		
- banks	2,202,318	2,175,300
	7,996,439	7,351,990
Provisions	-	(270)
TOTAL	7,996,439	7,351,720

Companies in which the Group has significant influence are:

	IN THOUSANDS OF TOLARS					
Name	Nature of business	Equity as at 31 December 2002	Profit for the period 2002	Ownership interest in %	Voting power held in %	Investment as at 31 December 2002
Banka Celje d.d., Celje	Banking	24,808,336	2,513,886	36.56	36.56	5,020,072
Adria Bank AG., Vienna	Banking	7,221,413	217,603	28.46	28.46	2,202,318
Bankart d.o.o., Ljubljana	Card management	1,361,523	107,681	39.45	39.45	512,767
Skupna pokojninska družba d.d., Ljubljana	Insurance	851,181	(113,819)	26.94	26.94	203,965
ICJ d.o.o., Domžale	Property	279,083	276,532	20	20	55,817
LB Factors d.o.o., Ljubljana	Finance	836,547	(711)	50	50	315,708
Bančno-zavarovalna družba d.o.o., Ljubljana	Insurance	1,443	(590)	50	50	1,500

b) Analysis of movements

	IN THOUSANDS OF TOLARS	
	Year 2002	Year 2001
Balance at 1 January	7,351,720	14,033,333
Merger of subsidiaries	-	(1,280,420)
Transfer from associates to subsidiary	-	(6,602,572)
Foreign exchange differences and revaluation	80,506	577,331
Profit for the period	1,338,144	1,858,413
Tax on profit	(447,954)	(901,263)
Dividends received	(451,773)	(339,028)
Other	125,796	5,926
Balance at 31 December	7,996,439	7,351,720

23. INVESTMENTS IN OTHER COMPANIES

a) Analysis by type of investment

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
In tolar		
- banks	1,235	1,235
- other financial organisations	2,408,411	2,553,272
- enterprises	527,510	2,397,977
In foreign currency		
- banks	887,474	554,973
- other financial organisations	624,889	816,128
- enterprises	434,154	118,074
	4,883,673	6,441,659
Provisions	-	(2,303,579)
TOTAL	4,883,673	4,138,080

The total amount of investments in other companies as at 31 December 2002 includes listed securities in the amount of 2,064,549 thousand tolar.

b) Analysis of movements

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	4,138,080	3,452,473
Consolidation of new subsidiaries	-	1,161,563
Exchange differences on opening balance of subsidiaries	24,686	5,220
Increase in investment	757,811	646,107
Decrease in investment	(818,269)	(646,264)
Foreign exchange differences and revaluation	6,798	216,368
Impairment	(1,529,012)	607,363
Transfer to investments in associated companies	-	(736,822)
Provisions	2,303,579	(567,928)
Balance at 31 December	4,883,673	4,138,080

24. INTANGIBLE ASSETS

	IN THOUSANDS OF TOLARS					
	Software	Goodwill	Deferred cost	Deferred interest	Intangible assets in course of transfer or implementation	Total
Cost or valuation						
- at 1 January 2002	3,110,084	1,082,319	1,498,082	190,369	3,825,204	9,706,058
Consolidation of new subsidiaries	-	4,209	-	-	1,838	6,047
Exchange differences on opening balance of subsidiaries	6,712	-	3,787	5,180	-	15,679
Additions	116,571	-	111,720	-	6,995,745	7,224,036
Transfers	6,759,435	-	215,879	-	(6,975,314)	-
Disposals	(56,504)	(60,595)	(41,302)	(195,549)	-	(353,950)
Transfer from subsidiary to joint venture	(1,144)	-	-	-	(2,555)	(3,699)
- at 31 December 2002	9,935,154	1,025,933	1,788,166	-	3,844,918	16,594,171
Depreciation						
- at 1 January 2002	1,006,415	494,463	1,055,513	-	-	2,556,391
Exchange differences on opening balance of subsidiaries	1,597	-	1,069	-	-	2,666
Disposals	(35,151)	-	(25,290)	-	-	(60,441)
Charge for the year	790,275	278,480	187,088	-	-	1,255,843
Transfer from subsidiary to joint venture	(722)	-	-	-	-	(722)
- at 31 December 2002	1,762,414	772,943	1,218,380	-	-	3,753,737
Net carrying value						
- at 1 January 2002	2,103,669	587,856	442,569	190,369	3,825,204	7,149,667
- at 31 December 2002	8,172,740	252,990	569,786	-	3,844,918	12,840,434

Under intangible assets the Group's new information system is presented with the carrying value of 8,323,062 thousand tolars.

25. PROPERTY AND EQUIPMENT

	IN THOUSANDS OF TOLARS					
	Land & Buildings	Computers	Furniture & Equipment	Motor Vehicles	Assets in Course of Transfer or Implementation	Total
Cost or valuation						
- at 1 January 2002	61,747,854	21,310,137	15,445,795	2,207,521	1,008,615	101,719,922
Consolidation of new subsidiaries	508,821	13,427	101,674	3,300	7,458	634,680
Exchange differences on opening balance of subsidiaries	282,427	3,393	21,097	6,822	3,598	317,337
Additions	172,026	168,471	513,945	509,571	7,860,069	9,224,082
Transfers	1,963,169	2,908,844	1,665,563	53,914	(6,591,490)	-
Disposals	(1,153,172)	(1,654,093)	(1,285,501)	(467,005)	(213,125)	(4,772,896)
Transfer from subsidiary to joint venture	(45,675)	(8,116)	(31,592)	(4,141)	(639)	(90,163)
Disposal of subsidiary	(2,742,658)	(82,879)	(197,484)	-	-	(3,023,021)
- at 31 December 2002	60,732,792	22,659,184	16,233,497	2,309,982	2,074,486	104,009,941
Depreciation						
- at 1 January 2002	15,210,749	14,846,248	9,306,236	1,104,687	-	40,467,920
Consolidation of new subsidiaries	21,085	11,382	64,298	836	-	97,601
Exchange difference on opening balance of subsidiaries	(1,001)	(1,853)	5,371	2,628	-	5,145
Disposals	(319,020)	(1,613,755)	(858,080)	(366,461)	-	(3,157,316)
Charge for the year	1,086,270	2,534,657	1,900,663	537,788	-	6,059,378
Transfer from subsidiary to joint venture	(692)	(3,628)	(9,491)	(1,966)	-	(15,777)
Disposal of subsidiary	(280,673)	(61,422)	(154,964)	-	-	(497,059)
- at 31 December 2002	15,716,718	15,711,629	10,254,033	1,277,512	-	42,959,892
Net carrying value						
- at 1 January 2002	46,537,105	6,463,889	6,139,559	1,102,834	1,008,615	61,252,002
- at 31 December 2002	45,016,074	6,947,555	5,979,464	1,032,470	2,074,486	61,050,049

The Group states 70,585 thousand tolars as at 31 December 2002 in computers acquired on finance lease.

Due to adoption of new Slovenian Accounting Standards the Bank tested the property's value in use by the independent qualified valuer in the year 2002. The value in use exercise was based on estimating present value of the future cash flows from continuing use and disposal. The exercise results proved that property is not impaired.

26. OWN SHARES

The Group holds own shares totalling 490,828 thousand tolars being 34,926 own shares in the nominal amount of 69,852 thousand tolars. LB Trading d.o.o., Ljubljana and LB Hipo d.o.o., Ljubljana hold each one share meanwhile Koroška banka d.d., Slovenj Gradec holds 34,924 NLB shares being 0.45% of the subscribed capital.

In the year 2002, according to the provisions of the Companies Act, the Group disposed of 19,662 own shares in the nominal amount of 39,324 thousand tolars. The gain on the sale amounting to 284,542 thousand tolars was included in equity reserves of the Group.

The Group holds 91,199 own shares received as collateral as at 31 December 2002 with the nominal value of 182,398 thousand tolars being 1.2% of subscribed capital.

27. OTHER ASSETS**a) Analysis by type of asset**

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Accrued interest due	4,457,808	4,500,064
Fees and commissions due	359,888	416,148
Credit cards receivables	9,946,490	8,917,191
Non authorized overdrafts	3,944,411	3,899,805
Debtors	3,066,826	867,654
Claims for taxes and other dues	1,964,365	959,852
Inventories	3,281,183	3,808,997
Prepayments	943,855	824,791
Receivables in course of collection	132,421	1,020,765
Cheques	142,141	268,537
Net receivables from intercompany relations	5,071	45,298
Investment property	4,325,700	4,617,002
Derivative financial instruments	998,334	666,152
Other assets	1,434,838	3,825,643
	35,003,331	34,637,899
Provisions	(6,833,298)	(5,781,732)
TOTAL	28,170,033	28,856,167

According to Bank of Slovenia's methodology investment property and property acquired for debt repayment have been transferred to other assets.

b) Movement of investment property

	Year 2002
Balance at 1 January	4,617,002
Foreign exchange differences	12,907
Disposal of investment property	(171,853)
Increase	54,430
Depreciation	(186,786)
Balance at 31 December	4,325,700

28. ACCRUED INCOME AND DEFERRED EXPENSES

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Accrued income not yet due	16,363,073	11,775,017
Deferred expenses	495,091	228,794
TOTAL	16,858,164	12,003,811

29. MOVEMENTS IN SPECIFIC PROVISIONS BY TYPE OF ASSET

IN THOUSANDS OF TOLARS

	Balance at 1 January 2002	Conso- lidation of new subsidiaries	Exchange differences on opening balance	Specific provisions made	Specific provisions released	Disposal of subsidiary	Transfer from subsidiary to joint venture	Balance at 31 December 2002
Placements with, and loans to,								
other banks	6,452,651	-	57,567	7,738,039	(7,532,925)	(305,151)	-	6,410,181
Loans and advances to customers	54,662,483	174,769	405,513	55,466,104	(51,806,844)	(506,294)	(44,627)	58,351,104
Debt securities not held for trading	553,119	-	-	-	(370,180)	(182,939)	-	-
Securities held for trading	639,116	-	-	-	(639,116)	-	-	-
Investments in associated companies	270	-	-	-	(270)	-	-	-
Investments in other companies	2,303,579	-	-	-	(2,303,579)	-	-	-
Other assets	5,781,732	522	2,822	4,981,647	(3,926,096)	-	(7,329)	6,833,298
TOTAL	70,392,950	175,291	465,902	68,185,790	(66,579,010)	(994,384)	(51,956)	71,594,583

30. DEPOSITS AND BORROWINGS FROM BANKS**a) Analysis of deposits**

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
On demand		
- in tolar	1,263,937	435,380
- in foreign currency	30,465,375	24,937,611
Short-term deposits		
- in tolar	19,040,582	27,777,536
- in foreign currency		
- NBY	-	9,457,161
- other banks	62,795,609	45,561,998
Long-term deposits		
- in tolar	37,000	110,000
- in foreign currency	690,802	-
Current portion of long-term deposits	217,897	50,000
TOTAL a)	114,511,202	108,329,686

b) Analysis of borrowings

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In tolar				
- Central Bank	-	1,081	-	36,923
- other banks	757,964	129,443	3,200,000	447,227
In foreign currency				
- IBRD	-	-	-	128,957
- other banks	70,309,311	139,133,866	84,110,408	115,076,830
Current portion of long-term loans	32,579,897	(32,579,897)	28,673,329	(28,673,329)
TOTAL b)	103,647,172	106,684,493	115,983,737	87,016,608
TOTAL a) and b)	217,430,572	107,412,295	224,203,423	87,126,608
TOTAL	324,842,867		311,330,031	

Borrowings in foreign currency	Currency	Maturity	Interest rate	31.12.2002
West LB, AG London	EUR	06.11.2007	EURIBOR + 0.30% p.a.	21,875,393
INTESA BCI, London	EUR	22.11.2005	EURIBOR + 0.30% - 0.35% p.a.	21,491,615
ING Bank N.V., London	EUR	30.10.2006	EURIBOR + 0.30% p.a.	18,421,384
Societe Generale Paris	EUR	21.05.2004	LIBOR + 0.22% p.a.	4,075,401
Barclays Bank PLC, London	EUR	19.06.2005	LIBOR + 0.35% - 0.45% p.a.	3,169,756
Bayerische Landesbank Girozentrale, München	EUR	09.12.2007	6-month EURIBOR + 0.60% p.a.	2,763,208
Landesbank Hessen -Thüringen Girozentrale, Frankfurt/Main	EUR	24.3.2003	fixed 2.93% p.a.	2,302,673
Landesbank Hessen -Thüringen Girozentrale, Frankfurt/Main	EUR	29.03.2012	for EUR 10,260,619.74 fixed - 5.80% p.a., for EUR 1,553,368.16 - 3-month EURIBOR + 0.50% p.a. until 31.3.2008, then 3-month EURIBOR + 0.60% p.a.;	2,236,753
WGZ Bank - Westdeutsche Genossenschafts - Zentralbank eG, Düsseldorf	EUR	20.12.2007	6-month EURIBOR + 0.55% p.a.	1,727,005
Mediocredito Centrale, Roma	EUR	03.09.2010	fixed 1.75% p.a.	1,716,202

c) Analysis of deposits and borrowings from associated and other related banks

Deposits and borrowing received from associated and other related banks amounted to 7,628,195 thousand tolars as at 31 December 2002 (17,576,325 thousand tolars as at 31 December 2001).

d) Analysis of movements

IN THOUSANDS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	224,203,423	87,126,608	101,866,397	70,280,676
Consolidation of new subsidiaries	2,116,351	225,011	105,659,554	8,274,890
Exchange differences on opening balance of subsidiary	4,655,609	302,658	2,246,761	3,951
Increase				
- new borrowings and deposits	4,209,307,272	56,738,503	3,046,494,353	36,129,511
- exchange differences	913,825	3,299,861	2,888,352	3,468,599
- interest added to principal	12,377	5,928	1,125,477	-
Decrease				
- repayments	(4,246,689,542)	(6,292,439)	(3,064,845,104)	(2,263,386)
Current portion of long-term liabilities	33,993,835	(33,993,835)	28,767,633	(28,767,633)
Transfer from subsidiary to joint venture	(230,267)	-	-	-
Disposal of subsidiary	(10,852,311)	-	-	-
Balance at 31 December	217,430,572	107,412,295	224,203,423	87,126,608

31. DEPOSITS AND BORROWINGS FROM OTHER CUSTOMERS**a) Analysis of deposits by type of customer**

	IN THOUSANDS OF TOLARS			
	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
Demand deposits:				
Enterprises				
- in tolar	48,141,102	-	47,670,060	-
- in foreign currency	31,288,032	-	30,272,823	-
Government departments and agencies				
- in tolar	16,858,358	-	8,293,279	-
- in foreign currency	580,435	-	446,408	-
Citizens				
- in tolar	179,835,546	-	146,413,148	-
- in foreign currency	145,528,877	-	142,866,914	-
Other financial organisations				
- in tolar	1,170,762	-	3,548,054	-
- in foreign currency	536,209	-	379,031	-
Non-residents				
- in tolar	1,394,517	-	1,217,029	-
- in foreign currency	33,435,560	-	26,734,493	-
Non-profit household service providers				
- in tolar	6,827,534	-	5,580,265	-
- in foreign currency	578,149	-	585,799	-
Time deposits				
Enterprises				
- in tolar	86,321,402	25,699,697	73,869,989	25,865,621
- in foreign currency	26,472,032	106,718	21,372,758	78,648
Government departments and agencies				
- in tolar	41,772,234	15,999,749	29,586,714	10,971,079
- in foreign currency	140,289	-	124,282	-
Citizens				
- in tolar	256,523,918	82,402,461	221,657,538	59,253,161
- in foreign currency	135,360,256	39,795,267	123,686,898	38,870,279
Other financial organisations				
- in tolar	15,380,283	30,079,723	13,097,104	35,538,710
- in foreign currency	2,154,758	36,595	104,062	35,188
Non-residents				
- in tolar	405,760	171,150	276,234	78,993
- in foreign currency	18,737,279	7,979,303	18,859,387	15,264,780
Non-profit household service providers				
- in tolar	4,426,530	2,032,360	3,668,739	1,956,579
- in foreign currency	2,022,076	98,094	1,835,388	-
Current portion of long-term deposits	111,424,588	(111,424,588)	115,134,389	(115,134,389)
TOTAL a)	1,167,316,486	92,976,529	1,037,280,785	72,778,649
			1,260,293,015	1,110,059,434

b) Analysis of borrowings by type of customer

IN THOUSANDS OF TOLARS				
	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
Enterprises				
- in tolar	17,648	-	-	-
Government departments and agencies				
- in foreign currency	-	5,368,707	-	7,136,650
Other financial organisations				
- in tolar	5,373,249	1,650,671	5,796,477	542,976
- in foreign currency	765,536	8,132,713	-	3,533,789
Non-residents				
- in foreign currency	31,038,890	7,163,306	39,839,410	3,618,806
Current portion of long-term borrowing	3,046,939	(3,046,939)	2,395,683	(2,395,683)
TOTAL b)	40,242,262	19,268,458	48,031,570	12,436,538
TOTAL a) in b)	1,207,558,748	112,244,987	1,085,312,355	85,215,187
TOTAL	1,319,803,735		1,170,527,542	

c) Analysis of deposits and borrowings from associated and other related companies

Deposits and borrowing received from associated and other related companies amounted to tolar 18,568,205 thousand as at 31 December 2002 (tolars 17,196,997 thousand as at 31 December 2001).

d) Analysis of movements

IN THOUSANDS OF TOLARS				
	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	1,085,312,355	85,215,187	720,944,046	77,611,345
Consolidation of new subsidiaries	39,693	-	129,766,707	15,454,537
Exchange difference on opening balance of subsidiaries	2,264,902	340,186	2,023,626	-
Increase				
- new borrowings and deposits	19,462,857,035	142,022,338	18,264,407,989	166,378,066
- exchange differences	4,949,252	678,959	68,407,443	5,512,195
- interest added to principal	23,629,846	12,767,501	20,009,092	10,145,300
Decrease				
- repayments	(19,489,801,865)	(9,238,190)	(18,249,918,764)	(60,214,040)
Current portion of long-term liabilities	119,692,863	(119,692,863)	129,672,216	(129,672,216)
Transfer from subsidiary to joint venture	150,261	151,869	-	-
Disposal of subsidiary	(1,535,594)	-	-	-
Balance at 31 December	1,207,558,748	112,244,987	1,085,312,355	85,215,187

32. DEBT SECURITIES

a) Analysis of debt securities by maturity

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Short-term liabilities		
- in tolar	188,753	890,539
- in other currencies	129,832	592,252
Long-term liabilities		
- in tolar	76,458,033	12,226,333
Current portion of long-term liabilities	-	8,940,606
TOTAL	76,776,618	22,649,730

For a detailed maturity analysis of bonds refer to note 46 - Balance sheet maturity analysis.

b) Analysis of issued debt securities to associated and other related companies

Liabilities to associated and other related companies arising from debt securities amounted to 10,125,558 thousand tolar as at 31 December 2002 (2,483,998 thousand tolar as at 31 December 2001).

33. OTHER LIABILITIES

a) Analysis by type of liability

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Accrued interest due	1,331,532	1,336,675
Fees and commissions due	29,437	364,681
Items in course of payment	747,761	1,653,389
Suppliers	5,710,441	3,374,928
Liabilities to traders for credit cards	5,138,454	4,443,128
Accrued salaries	2,551,698	1,582,193
Taxes payable	2,603,104	1,985,358
Liabilities for received cash in foreign currency	84,329	7,134,447
Liabilities for purchased debts	1,482,298	781,122
Payments received in advance	1,821,990	458,511
Net liabilities from funds managed on behalf of third parties	68,727	88,332
Derivative financial instruments	1,145,710	807,606
Other liabilities	1,519,169	1,139,156
TOTAL	24,234,650	25,149,526

34. ACCRUALS AND DEFERRED INCOME

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Accrued interest not yet due	17,685,053	16,611,302
Items in course of collection	405,617	566,824
Accrued expenses	1,985,063	725,844
Deferred income	1,274,382	1,375,298
TOTAL	21,350,115	19,279,268

35. PROVISIONS FOR LIABILITIES AND CHARGES**a) Analysis by type of provision**

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Provisions for A graded balance sheet and off-balance sheet assets	11,387,962	13,310,278
Provisions for other off-balance sheet assets	14,026,358	10,152,122
Provisions for offsetting by groups	58,680	62,173
Country risks provision	8,180,567	2,154,744
Provisions for other foreseeable risks	2,581,941	225,000
Negative goodwill	836,343	1,064,698
Provisions for pensions and restructuring costs	3,208,116	3,249,790
Other provisions	183,122	2,352,121
TOTAL	40,463,089	32,570,926

b) Analysis of movements

IN THOUSANDS OF TOLARS

	Balance at 1 January 2002	Consoli- dation of new subsidiaries	Exchange difference no opening balance of subsidiaries	Provisions made	Provisions released	Provisions utilised	Balance at 31 December 2002
Provisions for A graded balance sheet and off-balance sheet assets	13,310,278	52,205	127,487	10,781,335	(12,883,343)	-	11,387,962
Provisions for other off-balance sheet assets	10,152,122	-	18,244	20,147,226	(16,291,234)	-	14,026,358
Negative goodwill	1,064,698	-	-	-	(228,355)	-	836,343
Provisions for offsetting by groups	62,173	-	-	7,374	(10,867)	-	58,680
Country risks Provision	2,154,744	-	87,215	10,317,970	(4,379,362)	-	8,180,567
Provisions for pensions and restructuring costs	3,249,790	-	74,018	774,600	-	(890,292)	3,208,116
Provisions for other foreseeable risks	225,000	-	-	2,356,989	(48)	-	2,581,941
Other provisions	2,352,121	4,341	26,834	500,520	(206,366)	(2,494,328)	183,122
TOTAL	32,570,926	56,546	333,798	44,886,014	(33,999,575)	(3,384,620)	40,463,089

Other provisions include provisions utilised by LHB Bank for tax payments totalling 1,236,657 thousand tolars. Additional provisions totalling 951,385 thousand tolars were utilised for an out-of-court settlement with the Tržaška Kreditna Banka in liquidation (see note 34b in NLB financial statements).

36. PROVISIONS FOR GENERAL BANKING RISKS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	6,306,006	2,576,448
Consolidation of new subsidiaries	-	2,600,834
Exchange differences	104,297	-
Provisions made	926,871	1,128,724
Transfer for other foreseeable risks provisions	(1,950,000)	-
TOTAL	5,387,174	6,306,006

37. SUBORDINATED LIABILITIES

IN THOUSANDS OF TOLARS

	Currency	Maturity	Interest rate	31.12.2002	31.12.2001
Subordinated loans and deposits	SIT	1.4.2005	GPI+6%	400,000	400,000
	EUR	3.7.2006	EURIBOR+2.5%	5,756,683	5,535,237
	EUR	24.7.2012	EURIBOR+1.2%	20,724,057	-
	EUR	2.7.2007	EURIBOR+2.3%	8,059,355	7,749,333
				34,940,095	13,684,570
Subordinated notes	SIT	31.7.2004	FCC (EUR)+7.5%	1,059,621	1,018,844
				1,059,621	1,018,844
TOTAL				35,999,716	14,703,414

Subordinated liabilities arising from subordinated loans are commented in detail in note 36 of NLB financial statements.

Subordinated liabilities include a subordinated long-term deposit from Zavarovalnica Triglav totalling 400,000 thousand tolars. The maturity of the deposit was extended until 1 April 2005 with an annex to the 29 April 2000 contract. The fixed interest rate is GPI + 6%. Interest expenses of the Group arising from this contract in the year 2002 amounted to 53,731 thousand tolars.

Securities as subordinated liabilities have a fixed interest rate of 7.5%. Interest is paid every 6 months in tolars at the Bank of Slovenia mid-market tolar to euro exchange rate as at 31 December 2002.

38. MINORITY INTEREST

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	25,310,667	18,860,519
Exchange differences on opening balance of subsidiaries	272,183	-
Consolidation of new subsidiaries	-	11,014,189
Share of profits	1,405,995	912,855
Revaluation	-	976,903
Dividends paid	(780,538)	(482,329)
Decrease due to merger of subsidiaries	-	(6,100,061)
Decrease in capital of subsidiary	(1,254,413)	-
Other	(109,448)	128,591
Balance at 31 December	24,844,446	25,310,667

39. SUBSCRIBED CAPITAL

a) Analysis of subscribed capital by type of shareholder

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Enterprises	1,240,070	1,779,384
Government departments and agencies	6,305,132	12,164,250
Banks	6,063,012	99,900
Other financial organisations	1,613,664	1,254,760
Citizens	142,152	57,848
Own shares	-	7,888
TOTAL	15,364,030	15,364,030

At 31 December 2002, NLB subscribed capital was represented by 7,682,015 ordinary shares, each with the nominal value of 2,000 tolar. The shares are issued in a non-materialised form and are registered in the Centralna klirinško depotna družba d.d. register. All shares are ordinary shares of the same class.

At the end of the year 2002 there were 959 shareholders of whom 265 were legal entities, 691 private individuals and 3 non-residents. In September 2002 in the NLB privatisation process, the Republic of Slovenia sold 34% of all shares to KBC and 5% of all shares to EBRD. After the sale the Republic of Slovenia remains the majority shareholder as at 31 December 2002, holding 2,743,284 NLB shares, representing 35.71% of subscribed capital.

The weighted average number of ordinary shares outstanding in the year 2002 is 7,638,662. Basic earnings per share as at 31 December 2002 amounted to 750.10 tolar.

According to new Slovenian Accounting Standards in the year 2002 the Group has not revalued its capital. In case the Group revalued its capital using the general price index the profit before tax would amount to 7,906,864 thousand tolar, and in case of capital revaluation based on tolar to euro exchange rate the profit before tax would amount to 11,452,603 thousand tolar.

b) Statement of changes in equity by items

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Subscribed capital	15,364,030	15,364,030
Equity reserves	13,859,929	13,547,244
Profit reserves	60,150,684	56,753,093
Own shares fund	490,828	130,281
Retained earnings	1,896,233	2,516,484
General capital revaluation adjustment	11,791,771	11,791,771
Specific capital revaluation adjustment	180,675	-
Net profit for the period	3,535,557	3,956,622
Total shareholder's equity	107,269,707	104,059,525

40. OFF-BALANCE SHEET**a) Analysis by type of contingent liabilities and commitments**

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	In tolar	In foreign currency	In tolar	In foreign currency
Short-term guarantees				
- finance	5,902,881	12,297,698	5,514,068	12,447,853
- service	9,937,720	8,596,027	11,944,850	14,523,527
Long-term guarantees				
- finance	12,790,878	40,290,650	12,137,481	33,914,346
- service	28,529,662	32,292,834	22,176,772	40,863,445
Letters of credit	-	3,459,356	1,750	5,670,242
Guaranteed and accepted bills	-	1,582,753	-	1,022,595
Commitments to extend credit	135,815,447	37,953,923	128,971,899	30,672,666
Recoverable amount of derivative financial instruments	1,638,867	1,850,433	418,041	5,932,201
	194,615,455	138,323,674	181,164,861	145,046,875
Provisions	(8,481,590)	(5,544,768)	(5,304,708)	(4,847,414)
	186,133,865	132,778,906	175,860,153	140,199,461
TOTAL	318,912,771		316,059,614	

According to the Bank of Slovenia's methodology the Group's total off-balance sheet items amounted to 1,474,886,849 thousand tolar. In accordance with the Decree on the classification of Balance Sheet and Off-Balance Sheet items of Banks and Saving Banks, the Group established provisions only for contingent liabilities and commitments amounting to 332,939,129 thousand tolar.

At 31 December 2002 off-balance sheet items included liabilities related to contracts with associates and other related companies totalling 221,347 thousand tolar.

In addition to the above mentioned contingent liabilities amounting to 318,912,771 thousands tolar, a contingent liability arising from a law-suit filed by Banca Popolare Veneta against LB InterFinanz for DEM 10 million (= 5.113 million euros) and respective 5% interest since December 1996 exists. The plaintiff contests the authenticity of a document that granted LB InterFinanz to utilize a guarantee. LB InterFinanz's lawyers do not assess the plaintiff's rationale as compelling and expect the District Court to rule in favour of LB InterFinanz in the year 2003, otherwise LB InterFinanz will appeal the decision at the Supreme Court. The Bank has, due to favourable expectations of LB InterFinanz's lawyers, issued a guarantee on behalf of LB InterFinanz.

b) Analysis of derivative financial instruments by type

	IN THOUSANDS OF TOLARS			
	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
Forward contracts				
- for hedging	13,256,661	136,955	78,199,004	576,154
- for trading	5,380,771	2,089,031	9,388,924	-
Swaps with Bank of Slovenia				
- for hedging	640,080,705	-	166,079,535	-
Swaps				
- for hedging	13,854,081	-	31,422,917	-
- for trading	18,787,862	-	-	-
Options				
- for hedging	4,067,703	9,600,789	31,167,750	-
- for trading	-	-	221,409	-
Futures				
- for hedging	2,506,297	-	3,276,861	-
Forward contracts to buy or sell securities	4,297,946	1,572,298	3,763,532	-
	702,232,026	13,399,073	323,519,932	576,154
TOTAL	715,631,099		324,096,086	

Certain derivative financial instruments, while providing effective economic hedges under the risk management strategy of the Group, do not qualify for hedge accounting under the specific accounting rules and are therefore treated as derivatives held for trading.

c) Assets pledged

	IN THOUSANDS OF TOLARS			
	Assets pledged as collateral		Liabilities	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Bonds	47,615,201	52,423,307	46,154,865	42,761,710
Finance lease receivables	2,743,122	3,002,890	2,743,122	3,002,890
Factoring receivables	95,152	-	270,818	-
Real estate	-	1,710,312	-	1,432,964
	50,453,475	57,136,509	49,168,805	47,197,564

41. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages assets totalling 117,761,367 thousand tolars (115,938,273 thousand tolars as at 31 December 2001) on behalf of third parties. Managed funds are accounted for separately from those of the Group. Income and expenses of these funds are for the account of the respective fund and no liability falls on the Group in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

42. SUBSIDIARIES

IN THOUSANDS OF TOLARS

The subsidiaries are:

Year ended 31 December 2002	Country of incorporation	The Bank's share of subscribed capital	Profit for the period	Ownership Interest in %	Voting Power Held in %
Group Banke Domžale, Domžale	Slovenia	7,437,658	714,407	40	40
Koroška banka d.d., Slovenj Gradec	Slovenia	12,193,580	1,287,422	41.33	41.51
Banka Zasavje d.d., Trbovlje	Slovenia	5,789,091	193,415	40	42,09
Group LBS Bank, New York	USA	-	(24,526)	-	-
Group LHB Internationale Handelsbank, Frankfurt / Main	Germany	14,676,005	241,227	56.01	56.25
Commercebanc d.d., Sarajevo	Republic of Bosnia and Herzegovina	2,366,852	(442,383)	100	100
Tutunska Banka a.d., Skopje	Macedonia	7,128,870	902,059	52.90	52.90
Group LB Leasing, Ljubljana	Slovenia	2,360,059	176,808	100	100
Group LB HIPO, Ljubljana	Slovenia	3,401,579	10,905	100	100
LB Trading d.o.o., Ljubljana	Slovenia	(53,236)	(2,478)	100	100
Prospera plus d.o.o., Ljubljana	Slovenia	115,126	3,268	100	100
Group LB InterFinanz, Zürich	Switzerland	1,796,502	244,272	100	100
LB Maksima d.o.o., Ljubljana	Slovenia	3,489,108	1,279,428	91.18	100
FIT Leasing d.o.o., Velenje	Slovenia	(141,641)	(308,729)	100	100
Feniks d.o.o., Murska Sobota	Slovenia	171,298	16,061	100	100
Real d.o.o., Novo mesto	Slovenia	234,079	(114,622)	90	90
LB Factoring CZ, a.s., Ostrava	Czech Republic	519,711	80,144	100	100

Consolidated financial statements include Koroška banka d.d., Slovenj Gradec, Banka Zasavje d.d., Trbovlje and Banka Domžale d.d., Domžale on the basis of the contract on business cooperation and group risk management.

Items of profit for the period and subscribed capital of the above listed companies are adjusted according to Slovenian Accounting Standards and Group accounting policy.

43. RELATED PARTY TRANSACTIONS

IN THOUSANDS OF TOLARS

	Balance at 31.12.2002	Interest rate	Repayments in 2002
Loans and advances to			
- management board members	25,432	GPI + 1.3%	2,447
- supervisory board members	6,212	10.5%	3,700
- other employees by individual contract	645,830	3.98 - 18%	114,110
- NLB shareholders	62,273,526		
Deposits from			
- management board members	3,005		
- supervisory board members	8,235		
- other employees by individual contract	1,016,216		
- NLB shareholders	2,386,535		
Borrowings from			
- NLB shareholders	6,445,552		
Subordinated borrowings from			
- NLB shareholders	31,086,086		
Contingent liabilities and commitments			
- other employees by individual contract	3,408		
	Year 2002		
Income			
- management board members	171,292		
- supervisory board members	7,927		
- other employees by individual contract	3,249,216		

44. FAIR VALUES OF FINANCIAL INSTRUMENTS

IN THOUSANDS OF TOLARS

	Year 2002	
	Carrying amount	Fair value
Placements with, and loans to other banks	153,947,905	157,748,369
Loans and advances to customers	902,385,834	923,055,721
Debt securities available for sale	556,560,499	558,988,852
Debt securities held to maturity	31,021,323	28,159,788
Investments in other companies	12,880,112	12,880,112
Securities held for trading	136,661,172	142,106,532
Derivative financial instruments	998,334	1,501,014
Deposits from banks	114,511,201	113,349,860
Borrowings from banks	210,331,665	196,819,122
Deposits from customers	1,260,293,016	1,214,425,262
Borrowings from customers	59,510,719	59,571,697
Subordinated liabilities	35,999,716	35,567,970
Derivative financial instruments	1,145,710	1,145,756

45. SEGMENTAL ANALYSIS

IN THOUSANDS OF TOLARS

Year ended 31 December 2002	Retail banking	Corporate banking	Financial markets	Other (unallocated)	Group
Net interest and similar income	27,248,695	27,970,956	(523,859)	(1,679,981)	53,015,811
Income from investing in capital	-	-	9,884,894	-	9,884,894
Net fees and commissions	17,111,668	2,320,550	2,800,670	5,288,626	27,521,514
Net (loss)/profit from financial transactions	1,949,670	-	(5,178,204)	643,318	(2,585,216)
Other operating income	834,637	5,082	7,924,125	(2,217)	8,761,628
Employee costs	(19,824,966)	(3,906,640)	(4,762,963)	(2,963,989)	(31,458,531)
Other expenses	(14,780,356)	(12,594,982)	(2,913,833)	(318,318)	(30,607,489)
Other operating expenses	(3,240,320)	(2,761,217)	(638,804)	(69,785)	(6,710,127)
Net provisions for bad and doubtful debts and write offs less any recoveries	(4,016,106)	(6,693,510)	(2,008,053)	(669,351)	(13,387,020)
Segment result	5,282,921	4,340,240	4,584,000	228,303	14,435,464
Net provisions for general banking risks					1,023,129
Operating profit					15,458,593
Extraordinary profit					116,606
PROFIT FOR THE PERIOD					15,575,199
Tax					(8,439,414)
Minority interest					(1,405,995)
NET PROFIT FOR THE PERIOD					5,729,790
TOTAL ASSETS	526,478,207	343,456,181	994,850,582	986,121,535	1,980,972,117
LIABILITIES	1,169,168,299	55,494,627	563,567,075	85,472,409	1,873,702,410
SHAREHOLDER'S EQUITY	-	-	4,954,069	102,315,638	107,269,707

The Group is organised into three main business segments:

- 1. Financial markets**, including: treasury activities, investment banking, investing in capital.
- 2. Corporate business**, including: relation to major companies and state owned entities ("public sector").
- 3. Retail banking**, includes through affiliates all loans to, and deposits from private individuals, their transaction accounts, credit and payment cards.

Other operations of the Group comprise support activities to the first three business segments, information technology and other administrative activities not classified in the above three segments, beside that it also comprises activities of Group companies that are not banks.

Transactions between the business segments occur on generally accepted commercial terms. Segment assets and liabilities comprise operating assets and liabilities.

46. BALANCE SHEET MATURITY ANALYSIS

The balance sheet maturity analysis as at 31 December 2002 is as follows:

	IN THOUSANDS OF TOLARS					
	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	TOTAL
Cash and balances with Central Bank	68,105,764	-	-	-	-	68,105,764
Placements with, and loans to, other banks	89,618,792	31,415,345	15,066,445	17,822,003	25,320	153,947,905
Loans and advances to customers	69,333,789	77,845,086	269,927,949	361,791,026	123,487,984	902,385,834
Debt securities not held for trading	108,133,260	165,163,143	145,494,940	102,519,968	66,270,511	587,581,822
Securities held for trading	123,717,883	3,807,608	9,135,681	-	-	136,661,172
Investments in associated companies	-	-	-	-	7,996,439	7,996,439
Investments in other companies	-	-	903,016	497,379	3,483,278	4,883,673
Intangible assets	-	-	14,863	3,260,967	9,564,604	12,840,434
Property and equipment	-	-	-	15,874,998	45,175,051	61,050,049
Own shares	-	-	-	-	490,828	490,828
Other assets	18,659,351	512,420	1,356,568	6,618,207	1,023,487	28,170,033
Accrued income and deferred expenses	2,976,606	3,102,694	10,778,864	-	-	16,858,164
TOTAL ASSETS	480,545,445	281,846,296	452,678,326	508,384,548	257,517,502	1,980,972,117
Deposits and borrowings from banks	82,020,400	63,187,466	72,222,706	97,992,213	9,420,082	324,842,867
Deposits and borrowings from other customers	635,463,104	167,700,643	404,395,001	103,867,601	8,377,386	1,319,803,735
Debt securities	2,169	1,396	315,020	71,577,290	4,880,743	76,776,618
Other liabilities	17,606,718	3,534,251	2,874,468	219,213	-	24,234,650
Accruals and deferred income	4,609,849	2,986,900	12,645,681	1,105,708	1,977	21,350,115
Provisions for liabilities and charges	3,016,341	1,586,037	5,532,565	24,712,955	5,615,191	40,463,089
Provisions for general banking risks	-	-	-	300,000	5,087,174	5,387,174
Subordinated liabilities	-	-	-	15,275,659	20,724,057	35,999,716
Minority interest	-	-	-	-	24,844,446	24,844,446
Subscribed capital	-	-	-	-	15,364,030	15,364,030
Equity reserves	-	-	-	-	13,859,929	13,859,929
Profit reserves	-	-	-	-	60,641,512	60,641,512
Capital revaluation adjustment	-	-	-	-	11,972,446	11,972,446
- general capital revaluation adjustment	-	-	-	-	11,791,771	11,791,771
- specific capital revaluation adjustment	-	-	-	-	180,675	180,675
Consolidation capital adjustment	-	-	-	-	6,284	6,284
Retained earnings	-	-	-	-	1,896,233	1,896,233
Net profit for the period	-	-	-	-	3,529,273	63,529,273
TOTAL LIABILITIES	742,718,581	238,996,693	497,985,441	315,050,639	186,220,763	1,980,972,117
DIFFERENCE BETWEEN ASSETS AND LIABILITIES (262,173,136)	42,849,603	(45,307,115)	193,333,909	71,296,739	-	-

47. BALANCE SHEET ANALYSIS BY CURRENCY

The balance sheet analysis by currency as at 31 December is as follows:

IN THOUSANDS OF TOLARS

	Tolars	Tolars with foreign currency clause	USD	EUR	Other	Total
Cash and balances with Central Bank	54,127,606	-	787,934	11,554,208	1,636,016	68,105,764
Placements with, and loans to, other banks	2,361,096	290,246	22,976,282	107,833,595	20,486,686	153,947,905
Loans and advances to customers	537,762,162	34,438,731	34,692,743	279,712,849	15,779,349	902,385,834
Debt securities not held for trading	293,761,464	10,907,369	13,784,808	268,873,741	254,440	587,581,822
Securities held for trading	87,046,942	10,670,530	11,990,749	26,433,879	519,072	136,661,172
Investments in associated companies	5,794,095	-	-	2,202,344	-	7,996,439
Investments in other companies	2,937,156	-	274,901	509,042	1,162,574	4,883,673
Intangible assets	12,551,462	-	-	249,331	39,641	12,840,434
Property and equipment	49,763,968	-	-	9,695,701	1,590,380	61,050,049
Own shares	490,828	-	-	-	-	490,828
Other assets	23,715,456	145,544	1,254,256	2,500,191	554,586	28,170,033
Accrued income and deferred expenses	13,105,662	333,059	156,312	2,799,693	463,168	16,858,164
TOTAL ASSETS	1,083,417,897	56,785,479	85,917,985	712,364,844	42,485,912	1,980,972,117
Deposits and borrowings from banks	21,089,172	240,835	23,775,499	272,040,988	7,696,373	324,842,867
Deposits and borrowings from other customers	814,681,668	7,802,986	56,152,374	415,891,680	25,275,027	1,319,803,735
Debt securities	64,865,422	11,781,364	115,062	14,770	-	76,776,618
Other liabilities	18,563,206	204,512	1,823,324	1,999,967	1,643,641	24,234,650
Accruals and deferred income	15,792,509	237,185	782,774	4,243,719	293,928	21,350,115
Provisions for liabilities and charges	18,417,650	190,346	1,955,134	15,965,209	3,934,750	40,463,089
Provisions for general banking risks	2,666,500	-	-	2,720,674	-	5,387,174
Subordinated liabilities	400,000	1,059,621	-	34,540,095	-	35,999,716
Minority interest	14,901,480	-	-	5,701,582	4,241,384	24,844,446
Subscribed capital	15,364,030	-	-	-	-	15,364,030
Equity reserves	13,859,929	-	-	-	-	13,859,929
Profit reserves	59,312,409	-	-	1,182,397	146,706	60,641,512
Capital revaluation adjustment	11,972,446	-	-	-	-	11,972,446
- general capital revaluation adjustment	11,791,771	-	-	-	-	11,791,771
- specific capital revaluation adjustment	180,675	-	-	-	-	180,675
Consolidation capital adjustment	-	-	-	8	6,276	6,284
Retained earnings	3,993,629	-	-	103,541	(2,200,937)	1,896,233
Net profit for the period	3,421,221	-	-	(215,168)	323,220	3,529,273
TOTAL LIABILITIES	1,079,301,271	21,516,849	84,604,167	754,189,462	41,360,368	1,980,972,117
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	4,116,626	35,268,630	1,313,818	(41,824,618)	1,125,544	-
Derivative financial instruments	73,487	-	(8,339,881)	13,874,956	(5,209,279)	399,283

48. BALANCE SHEET ANALYSIS BY INTEREST RATE

The balance sheet analysis by interest rate as at 31 December is as follows:

	IN THOUSANDS OF TOLARS						
	Total	Non interest bearing	interest bearing	Up to 1 Month	1 Mont to 3 Moths	3 Months to 1 Year	Over 1 Year
Cash and balances with Central Bank	68,105,764	34,900,611	33,205,153	33,205,153	-	-	-
Placements with, and loans to, other banks	153,947,905	499,108	153,448,797	84,591,089	43,047,903	25,452,759	357,046
Loans and advances to customers	902,385,834	104,435	902,281,399	492,815,377	51,569,791	260,340,748	97,555,483
Debt securities not held for trading	587,581,822	-	587,581,822	209,189,748	167,082,619	196,984,450	14,325,005
Securities held for trading	136,661,172	14,180,164	122,481,008	101,415,682	2,878,494	18,186,832	-
Investments in associated companies	7,996,439	7,996,439	-	-	-	-	-
Investments in other companies	4,883,673	4,883,673	-	-	-	-	-
Intangible assets	12,840,434	12,840,434	-	-	-	-	-
Property and equipment	61,050,049	61,050,049	-	-	-	-	-
Own shares	490,828	490,828	-	-	-	-	-
Other assets	28,170,033	27,684,569	485,464	485,464	-	-	-
Accrued income and deferred expenses	16,858,164	16,858,164	-	-	-	-	-
TOTAL ASSETS	1,980,972,117	181,488,474	1,799,483,643	921,702,513	264,578,807	500,964,789	112,237,534
Deposits and borrowings from banks	324,842,867	141,268	324,701,599	88,897,320	91,743,028	132,298,040	11,763,211
Deposits and borrowings from other customers	1,319,803,735	2,641,138	1,317,162,597	1,007,718,006	177,207,233	120,187,074	12,050,284
Debt securities	76,776,618	-	76,776,618	20,297,223	119,345	10,707	56,349,343
Other liabilities	24,234,650	24,234,650	-	-	-	-	-
Accruals and deferred income	21,350,115	21,350,115	-	-	-	-	-
Provisions for liabilities and charges	40,463,089	40,463,089	-	-	-	-	-
Provisions for general banking risks	5,387,174	5,387,174	-	-	-	-	-
Subordinated liabilities	35,999,716	-	35,999,716	-	400,000	34,540,095	1,059,621
Minority interest	24,844,446	24,844,446	-	-	-	-	-
Subscribed capital	15,364,030	15,364,030	-	-	-	-	-
Equity reserves	13,859,929	13,859,929	-	-	-	-	-
Profit reserves	60,641,512	60,641,512	-	-	-	-	-
Capital revaluation adjustment	11,972,446	11,972,446	-	-	-	-	-
- general capital revaluation adjustment	11,791,771	11,791,771	-	-	-	-	-
- specific capital revaluation adjustment	180,675	180,675	-	-	-	-	-
Consolidation capital adjustment	6,284	6,284	-	-	-	-	-
Retained earnings	1,896,233	1,896,233	-	-	-	-	-
Net profit for the period	3,529,273	3,529,273	-	-	-	-	-
TOTAL LIABILITIES	1,980,972,117	226,331,587	1,754,640,530	1,116,912,549	269,469,606	287,035,619	81,222,459
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	-	(44,843,113)	44,843,113	(195,210,036)	(4,890,799)	213,928,873	31,015,075

49. EFFECTIVE INTEREST RATES

	Year 2002		Year 2001	
	In tolars %	In foreign currency %	In tolars %	In foreign currency %
ASSETS				
Cash and balances with the Central Bank	0.99	0.00	1.00	0.00
Placements with, and loans to, other banks *	6.56	2.91	8.67	4.66
Loans and advances to customers *	13.83	4.17	15.39	6.66
Debt securities not held for trading	12.74	2.95	14.94	3.28
Securities held for trading	6.17	3.39	8.73	5.73
Other assets	0.65	0.00	0.75	0.00
TOTAL ASSETS	10.44	3.84	13.24	4.56
LIABILITIES				
Deposits from banks	9.43	3.18	15.81	4.85
Borrowings from banks	4.31	2.49	9.42	3.96
Deposits from other customers	7.74	1.79	8.63	2.82
Borrowings from other customers	10.33	0.64	12.60	0.46
Debt securities	13.06	0.02	14.79	3.25
Other liabilities	0.65	0.00	0.36	0.00
Subordinated liabilities	-	5.94	-	8.01
TOTAL LIABILITIES	5.28	2.86	7.65	3.53

* Interest rates based on interest income and expenses increased by credit commissions.

Interest rates are calculated on the basis of cumulative interest income and expenses, and on daily average of NLB balances and quarterly average of the rest of the Group companies balances of interest-bearing assets and liabilities. Interest income related to the items Placement with, and loans to other banks and Loans and advances to customers are increased by respective commissions for granting those loans.

FINANCIAL DATA AND FIGURES OF NLB ACCORDING TO BANK OF SLOVENIA METHODOLOGY

IN BILLION TOLARS

BALANCE SHEET	31.12.2000	31.12.2001¹	31.12.2002
Total assets	918.8	1,376.7	1,619.2
Non-bank customer deposits & borrowings	604.1	979.5	1,118.6
a) corporate & state	264.4	348.6	397.6
b) retail	339.7	630.9	721.0
Non-bank customer loans	443.1	635.5	704.1
a) corporate & state	336.2	483.0	544.2
b) retail	106.9	152.5	159.9
Total equity	77.8	104.6	112.6
Total Provisions	48.1	70.1	79.1
Off-balance sheet	447.9	926.0	1,410.1
Retail deposits in average	306.9	428.9	679.2
Retail loans in average	111.0	132.3	175.1
INCOME STATEMENT	Year 2000	Year 2001¹	Year 2002
Net interest income	31.7	35.2	43.4
Net non-interest income	13.6	17.3	25.0
General administrative expenses	23.1	29.3	40.6
Depreciation	3.0	4.1	5.5
Net provisions	-8.9	-6.6	-9.5
Profit before Tax	10.0	12.1	12.6
Tax on profit	3.6	4.7	5.0
Other Taxes	1.5	1.3	1.3
NUMBER OF EMPLOYEES (AT THE YEAR-END)	2,904	3,979	3,953
SHARES			
Number of shareholders	137	883	883
Number of shares	6,905,121	7,682,015	7,682,015
Nominal value of a share	2,000	2,000	2,000
Book value of a share	11,270	13,615	14,656
			IN PER CENT
FIGURES			
a) Capital			
- capital (amount in billion tolar)	44.9	71.8	92.7
- capital adequacy ratio	9.3	9.1	10.7
b) Asset quality			
- non-performing asset portfolio (B, C, D, E) total assets before charge for provisions	12.36	10.68	11.49
- special provisions for on-balance sheet/total assets before charge for provisions ²	4.06	3.82	3.74
- special provisions for on-balance sheet/non-performing asset portfolio (B, C, D, E) ²	27.32	29.60	27.77
c) Profitability			
- net interest margin	4.16	3.67	3.23
- return on total average assets before tax	1.21	1.14	0.87
- return on total average assets after tax	0.60	0.57	0.43
- return on capital before tax	14.07	14.32	12.14
- return on capital after tax	7.01	7.14	6.06
d) Total operating expenses			
- total operating expenses/average total assets	3.18	3.16	3.19
e) Liquidity			
- avg. liquidity assets/average demand deposits	16.29	18.84	29.44
- secondary liquidity/demand deposits	51.27	69.64	112.94

¹ Adjusted to new SAS² Figures for year 2002 include country risks provisions

Nova Ljubljanska banka d.d., Ljubljana
Audited Financial Statements for NLB d.d.
under Slovenian Accounting Standards

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NOVA LJUBLJANSKA BANKA D.D., LJUBLJANA

We have audited the accompanying financial statements of Nova Ljubljanska Banka d.d., Ljubljana, consisting of the balance sheet as of 31 December 2002, the income statement, the cash flow statement, the statement of changes in equity, and the notes to the financial statements for the year then ended. We have read the management's report on operations. These financial statements and the notes are the responsibility of the Bank's management. 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 issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the management's report on operations with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Bank as of 31 December 2002, the results of its operations, and the cash flows and the changes in equity for the year ended in conformity with the Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The management's report on operations is in conformity with the audit financial statements.



Vera Mendard, BSc.Ec.
Partner and Certified Auditor

KPMG SLOVENIJA,
podjetje za revidiranje in poslovno svetovanje, d.o.o.



Andrej Korinšek, BSc.Ec.
Managing Director and Certified Auditor

Ljubljana, 14 April 2003

KPMG Slovenija, d.o.o.

INCOME STATEMENT

IN THOUSANDS OF TOLARS

	Note	2002	2001
Interest and similar income	5	104,577,277	89,993,216
Interest and similar expenses	5	(68,881,730)	(58,450,643)
Net interest and similar income		35,695,547	31,542,573
Income from capital and other investments	6	11,282,147	5,984,448
Fees and commissions income	7	25,147,666	15,674,416
Fees and commissions expenses	7	(4,231,152)	(3,198,763)
Net fees and commissions		20,916,514	12,475,653
Gains from financial transactions	8	68,074,929	58,613,449
Losses from financial transactions	8	(70,236,147)	(57,271,001)
Net profit from financial transactions		(2,161,218)	1,342,448
Other operating income	9	3,139,222	3,852,366
Employee costs	10	(23,143,242)	(16,958,742)
Cost of material and services	11	(17,492,925)	(12,383,460)
Depreciation and revaluation expenses from property, equipment and intangible assets	12	(5,456,749)	(4,938,102)
Other operating expenses	13	(1,238,826)	(404,748)
Net provisions for bad and doubtful debts and write offs less any recoveries	14	(10,183,060)	(5,715,549)
Net provisions for general banking risks	35	1,200,000	(892,245)
OPERATING PROFIT		12,557,410	13,904,642
Extraordinary income	15	41,935	38,623
Extraordinary expenses	15	(17,138)	(1,806,357)
- extraordinary expenses		(17,138)	(8,589)
- extraordinary expense due to capital revaluation		-	(1,797,768)
Extraordinary profit (loss)		24,797	(1,767,734)
PROFIT BEFORE TAX		12,582,207	12,136,908
Tax on profit		(5,453,633)	(4,740,534)
Other taxes		(848,441)	(1,342,362)
NET PROFIT FOR THE PERIOD		6,280,133	6,054,012

BALANCE SHEET

IN THOUSANDS OF TOLARS

	Note	31.12.2002	31.12.2001
Cash and balances with the Central Bank	16	55,350,465	79,219,764
Placements with, and loans to, other banks	17	131,940,293	113,210,152
Loans and advances to customers	18	704,103,725	635,397,416
Debt securities not held for trading	19	479,910,865	364,241,521
Securities held for trading	20	121,272,288	72,260,029
Investments in subsidiaries, associated and jointly controlled companies	21	40,246,255	36,136,537
Investments in other companies	22	1,314,128	2,142,233
Intangible assets	23	11,279,664	5,702,639
Property and equipment	24	41,217,771	39,698,944
Own shares	25	-	50,254
Other assets	26	19,436,554	20,023,091
Accrued income and deferred expenses	27	13,093,331	8,573,441
TOTAL ASSETS		1,619,165,339	1,376,656,021
Deposits and borrowings from banks	29	210,393,019	193,532,783
Deposits and borrowings from other customers	30	1,118,591,370	979,505,927
Debt securities	31	76,354,631	22,131,249
Other liabilities	32	18,870,608	22,729,558
Accruals and deferred income	33	17,807,825	15,720,913
Provisions for liabilities and charges	34	27,790,206	21,733,738
Provisions for general banking risks	35	2,228,616	3,428,616
Subordinated liabilities	36	34,540,095	13,284,570
Subscribed capital	37	15,364,030	15,364,030
Equity reserves	37	13,603,376	13,547,242
Profit reserves	37	63,680,167	60,569,523
Capital revaluation adjustment	37	16,745,629	11,791,560
Retained earnings	37	5,446	-
Net profit for the period	37	3,190,321	3,316,312
TOTAL LIABILITIES		1,619,165,339	1,376,656,021
OFF-BALANCE SHEET	38	1,410,118,309	925,959,129

The Management Board approved the financial statements and notes to the financial statements.



Borut Stanič
Member of the
Management Board



Matej Narat
Member of the
Management Board



Pierre Van Keirsbilck
Member of the
Management Board



Andrej Hazabent
Member of the
Management Board



Marko Voljč
President of the
Management Board
& CEO

CASH FLOW STATEMENT

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	129,568,228	102,229,701
Interest and similar income	88,266,880	74,352,567
Fees and commissions income	25,219,174	15,520,823
Recoveries from loans previously written off	905,131	116,581
Income from capital and other investments	8,782,691	3,535,027
Net profit from financial transaction	3,597,572	4,857,448
Other operating income	2,796,780	3,847,255
Outflows from operating activities	(115,267,669)	(89,408,310)
Interest and similar expenses	(62,327,324)	(51,203,628)
Fees and commissions expenses	(4,594,541)	(3,104,197)
Employee costs	(22,056,122)	(16,558,888)
Material and services costs	(16,522,385)	(11,979,835)
Other operating expenses	(2,271,439)	(361,277)
Taxation paid	(7,495,858)	(6,200,485)
Operating income before changes in operating assets and liabilities	14,300,559	12,821,391
Increase in operating assets	(72,276,619)	(54,968,867)
Net (increase)/decrease in loans to banks	(6,753,997)	13,014,854
Net increase in loans and advances to customers	(67,651,257)	(62,782,842)
Net decrease in securities held for trading	102,908	1,040,020
Net decrease/(increase) in other operating assets	2,025,727	(6,240,899)
Increase/(decrease) in operating liabilities	123,100,007	237,884,926
Net increase in deposits from banks	3,221,746	23,474,989
Net increase in deposits from other customers	126,490,100	209,536,858
Net (decrease)/increase in other operating liabilities	(6,611,839)	4,873,079
Net inflow from operating activities	65,123,947	195,737,450
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows from investing activities	332,602,892	228,627,747
Sale of debt securities	326,352,424	227,829,779
Sale of investment in subsidiaries, associated companies and other companies	5,843,787	694,528
Sale of property, equipment and intangible assets	406,681	103,440
Outflows from investing activities	(426,472,325)	(220,234,411)
Purchase of debt securities	(412,228,028)	(209,750,254)
Purchase of investments in subsidiaries, associated companies and other companies	(1,780,741)	(349,597)
Purchase of property, equipment and intangible assets	(12,463,556)	(10,134,560)
Net inflow or net outflow from investing activities	(93,869,433)	8,393,336
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	283,855,844	589,675,906
Borrowings from banks and other customers	199,369,662	568,177,764
Increase in debt securities and subordinated liabilities	84,379,795	21,490,615
Sale of own shares	106,387	7,527
Outflows from financing activities	(200,652,259)	(627,235,929)
Dividends paid	(3,291,962)	(2,046,000)
Debts repayment	(186,756,657)	(606,276,005)
Decrease in debt securities and subordinated liabilities	(10,603,640)	(18,913,924)
Net inflow or net outflow from financing activities	83,203,585	(37,560,023)
Effect of exchange rate changes on cash and cash equivalents	6,606,194	13,637,034
CASH AND CASH EQUIVALENTS AT END OF PERIOD	512,952,203	451,887,910
Financial result for the period	61,064,293	180,207,797
Increase in cash and cash equivalents following the merger of subsidiaries	-	52,399,001
Cash at the beginning of period	451,887,910	219,281,112

STATEMENT OF CHANGES IN EQUITY

IN THOUSANDS OF TOLARS

	Subscribed capital	Equity reserves	Profit reserves	Own shares fund	Retained earnings	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit for the period	Total sharehol- ders equity
Balance at 1 January 2002	15,364,030	13,547,242	60,519,269	50,254	-	11,791,560	-	3,316,312	104,588,667
Transfers to equity	-	56,134	1,755	-	5,446	-	4,954,069	6,280,133	11,297,537
Specific capital revaluation	-	-	-	-	-	-	4,954,069	-	4,954,069
Net profit (loss) for the period	-	-	-	-	-	-	-	6,280,133	6,280,133
Other	-	56,134	1,755	-	5,446	-	-	-	63,335
Transfers within equity	-	-	2,668,317	440,572	-	-	-	(3,108,889)	-
Allocation of net profit for the period	-	-	2,649,240	-	-	-	-	(2,649,240)	-
Transfer of capital items to own shares fund	-	-	-	440,572	-	-	-	(440,572)	-
Other	-	-	19,077	-	-	-	-	(19,077)	-
Transfers from equity	-	-	-	-	-	-	-	(3,297,235)	(3,297,235)
Dividends paid	-	-	-	-	-	-	-	(3,291,962)	(3,291,962)
Other	-	-	-	-	-	-	-	(5,273)	(5,273)
Balance at 31 December 2002	15,364,030	13,603,376	63,189,341	490,826	5,446	11,791,560	4,954,069	3,190,321	112,588,969

1. NOTES TO FINANCIAL STATEMENTS

Nova Ljubljanska banka d.d., Ljubljana ("the Bank" or "NLB") is incorporated in Slovenia as a joint stock company providing universal banking services.

The majority shareholders of Nova Ljubljanska banka d.d. are the Republic of Slovenia, holding 35.71 % of the shares and KBC Bank N.V., Brussels ("KBC Bank"), holding 34 % of the shares.

The address of its registered office is:

Nova Ljubljanska banka d.d., Ljubljana, Trg republike 2, Ljubljana

The increase in the general price index for the year 2002 was 7.2 % (2001: 7 %). The exchange rate changed from 221.4 tolar to the euro at 31 December 2001 to 230.3 tolar to the euro at 31 December 2002, and from 250.9 tolar to the US dollar at 31 December 2001 to 221.1 tolar to the US dollar at 31 December 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements have been prepared in accordance with Slovenian Accounting Standards, and Bank of Slovenia's regulations, represented by the Decree on the Classification of Balance Sheet and Off-Balance Sheet Asset Items of Banks and Savings Banks and the Decree on Establishing Specific Provisions of Banks and Savings Banks and other Bank of Slovenia's regulations.

The principal accounting policies applied by the Bank for the preparation the financial statements are set out below:

a) Assets and liabilities in foreign currencies

Assets and liabilities in foreign currencies are converted into the tolar equivalent at the mid-market exchange rate of the Bank of Slovenia as at the last day of the accounting period. Foreign exchange gains and losses are included in the income statement.

b) Interest, fees and commissions

Interest, fees and commissions expenses are included in the income statement as soon as they are accrued, while interest, commissions and fees income is included in the income statement depending on the grading of the client. According to the Bank of Slovenia's regulations the income from performing assets (A and B grading groups) is included in the income statement as soon as it occurs, except for interest income from mortgage loans to clients classified in B grading

group. Income from these loans and income from non-performing loans (C, D and E grading groups) is excluded until paid, and reported as allowances for bad and doubtful interest under other assets.

In the cash flow statement interest is presented as cash flows from operating activities.

c) Investments in securities

Investments in securities held for trading and investments in debt securities available for sale are initially recorded at cost. Subsequently they are stated at lower of the cost or fair value. The fair value is based on a quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of the securities is calculated using discounted cash flow techniques or it is assessed in accordance with the grading group of the issuer. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for a financial instrument with similar terms and conditions.

Held to maturity securities are initially measured at cost. After initial recognition they are stated in the balance sheet at the amount of the principal outstanding less any impairment.

The Bank uses FIFO method for determination of the profit or loss on derecognition of securities.

d) Own shares

Own shares constitute a part of the company's share capital, presented as assets in the balance sheet. Gains and losses on sale of own shares are credited or charged to reserves.

e) Investments in subsidiaries, associates, jointly controlled companies and investments in other companies

Investments in capital are initially measured at cost, being the amount of cash paid or the fair value of consideration given.

Investments in subsidiaries, associates and jointly controlled companies are accounted for using the equity method, while investments in other companies are accounted for using the cost method.

The bank's share of profits and losses of subsidiaries is included in the income statement as soon as it is accrued, while the share of the profits of associates and jointly controlled companies is until payment reported in the equity.

The bank's share of losses of associates and jointly controlled companies is included in the income statement immediately.

Profits of other companies are recognised in the income statement only to the extent of dividends received.

If there is an indication that investments may be impaired each individual investment is assessed. Any impairment is recognised immediately in the income statement.

f) Derivative financial instruments

For the accounting purposes derivative financial instruments are designated for hedging or for trading purposes. The contract and notional amount of derivative financial instruments is recorded in the off - balance sheet, while their fair values are presented as other assets when favourable to the Bank or other liabilities when unfavourable to the Bank.

Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate.

Loss on derivative financial instruments, treated as held for trading, is recognised in the income statement immediately. Gains are recognised in the income statement only when they are realized.

Changes in the fair value of derivative financial instruments that are designated as the fair value hedge are recognised in the income statement on the same basis as the corresponding change in the fair value of the hedged item.

Changes in the fair value of derivative financial instruments that are designated as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are presented in the equity as specific capital revaluation adjustment, while the ineffective portion is immediately reported in the income statement.

Certain derivative instruments, while providing effective economic hedges, do not qualify for hedge accounting under the specific accounting rules and are therefore treated as derivatives held for trading.

g) Loans and borrowings

Loans and borrowings are initially recognised at the amount of the cash given or received.

Loans are stated in the balance sheet at the amount of the principal outstanding, increased by interest capitalised where appropriate, less any provision for unrecoverable amounts. Borrowings in the balance sheet are presented at the amount

of the principal outstanding, increased by interest capitalised where appropriate.

h) Provisions

In accordance with Bank of Slovenia's regulation the Bank is required to establish specific risk provisions and provisions for general banking risks.

Specific provisions are established on loans, advances and off-balance sheet items in respect of credit risk on the basis of provisioning rates specified by the Bank of Slovenia's Decree on the Classification of Balance Sheet and Off-Balance Sheet Asset Items of Banks and Savings Banks. Specific credit risk provisions on loans and advances to customers classified in the rating group B, C, D or E are stated on the asset side of the balance sheet as allowances for bad and doubtful loans, while specific credit risk provisions for A rating group are stated on the liability side. Specific credit risk provisions established on off - balance sheet items and specific country risk provisions are also stated on the liability side of the balance sheet.

Specific provisions for other foreseeable risks, stated on the liability side of the balance sheet, are established in respect of interest rate risk and foreign exchange risk.

General banking risk provisions, stated on the liability side of the balance sheet, are established for the purpose of protecting against risks arising from the Bank's overall operations.

i) Uncollectable loans and advances

Uncollectable loans and advances are written off, according to internal written procedures of the Bank, after all necessary procedures for recovery have been completed. Any eventual subsequent repayments of loans and advances previously written off are recognised as income from loans and advances written off.

j) Provisions for liabilities and charges

Provisions for obligations that are expected to occur in the period exceeding one year are recognised in the financial statements when:

- there is a present obligation (legal or constructive) as a result of a past event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation,
- a reliable estimate can be made of the amount of the obligation.

k) Negative goodwill

Negative goodwill presents excess of the fair values of the net identifiable assets over the cost of acquisition. Negative goodwill is presented as part of provisions for liabilities and charges and it is amortised over a period of five years.

l) Accruals and deferred income and expenses

Income and expenses are recognised when they occur and not as cash is received or paid. They are presented as accruals in a separate balance sheet position.

m) Property and equipment

All property and equipment is initially recorded at cost. The cost of property and equipment comprises purchase price including import duties, initial delivery and installation costs.

At each balance sheet date the Bank assesses whether there is any indication that assets may be impaired. If any such indication exists the recoverable amount is estimated. Recoverable amount is higher of net selling price and value in use. When value in use exceeds carrying amount that indicates that assets are not impaired. The Bank examines whether to revalue the property in case of significant increase in market values.

Depreciation of property and equipment is provided on a straight-line basis at rates designed to write off cost or valuation of buildings and equipment over their estimated useful lives.

The following annual depreciation rates are applied:

	2002	2001
in %		
Buildings	2	2
Computers	14,3 - 25	20 - 25
Furniture and other equipment	10 - 20	20
Motor vehicles	25	25
Other assets	20	20

Land and works of art are not depreciated.

Property and equipment is depreciated from the first day of next month after it was brought into use.

Subsequent expenditures result in an increase of an asset's carrying amount when it is probable that future economic benefits will exceed the originally assessed benefits or in an extension of the useful life of an asset.

The same accounting policies are applied for assets held by the Bank under a finance lease.

n) Investment property

Investment property includes land and buildings owned by the Bank and leased out under operating lease. Investment property is accounted for using the same accounting policies adopted by the Bank for property and equipment.

According to the Bank of Slovenia's methodology investment property is in the balance sheet presented as other assets.

o) Intangible assets

Intangible assets are initially recognised at cost including any directly attributable costs. Intangible assets are subsequently impaired if their carrying amount exceeds their value in use.

Amortisation is provided on a straight-line basis at rates designed to write off the cost of intangible assets over its estimated useful life.

The following annual amortisation rates are applied:

	2002	2001
in %		
Leasehold Improvements	20	20
Software	10	10
Integral information system	10	10
Other intangible assets	20 - 25	20 - 25

Intangible assets are not amortised until they are brought into use.

p) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank, securities held for trading, loans to banks and debt securities not held for trading with maturity up to 90 days.

q) Tax on profit and balance sheet tax

Slovenian corporate tax is provided on taxable profits at the rate of 25%. Foreign taxes are provided for in accordance with local tax laws and accounting principles.

In 2002 the Slovenian balance sheet tax is calculated as a 3 % levy on certain balance sheet items. According to Slovenian legislation the maximum balance sheet tax is limited to 50 % of pre-tax profit. Where the 3 % levy exceeds 50 % of profits, the lower tax charge is payable.

r) Funds managed on behalf of third parties

Assets and liabilities managed on behalf of third parties are in the balance sheet stated on a net basis.

3. NEW SLOVENIAN ACCOUNTING STANDARDS

New Slovenian Accounting Standards became operative for financial statements covering periods beginning after 1 January 2002. The main changes resulting from the adoption of the new Slovenian Accounting Standards and amended regulations of the Bank of Slovenia are:

- the revised Slovenian Accounting Standards abandoned the system of maintaining the capital in constant purchasing power units if exchange rate euro/tolar doesn't exceed the growth of 5.5 % in previous year,
- investments in associates and jointly controlled companies are, under the renewed Slovenian Accounting Standards accounted for using the equity method,
- the previous requirements of the Bank of Slovenia to establish provisions on investments in securities and investments in other companies have been replaced with principles and rules for measurement and valuation in accordance with the new Slovenian Accounting Standards.

New methodology rules for the preparation of financial statements resulted in the following changes in the presentation of the balance sheet:

- provisions established on overdrafts are presented on the assets side,
- suspended income is presented as allowances for bad and doubtful interest under other assets,
- provisions for country risks are presented on the liability side,
- fair values of derivative financial instruments are presented as other assets or other liabilities,
- investment property and property acquired for debt repayment is presented as other assets.

Changes in presentation of the income statement are:

- revaluation interest is presented as interest income or expenses,
- foreign exchange differences are presented as gains or losses from financial transactions,
- interest income from debt securities held for trading is presented as income from capital and other investments.

In accordance with the official conclusion of The Slovenian Institute of Auditors items of the balance sheet and the income statement for the year 2001 are not restated but are adjusted to the new methodology for the presentation of financial statements.

Items of the revaluation income statement are presented as part of income or expenses to which they relate, except for the revaluation of capital, property and equipment, intangible assets and capital investments, which is presented in the income statement as extraordinary expense due to capital revaluation.

Cash flow statement for the year 2001 is restated due to the conceptually new methodology.

4. POST BALANCE SHEET EVENTS

In September 2002 Banca Antoniana Popolare filed a lawsuit against LB InterFinanz AG in the amount of DEM 10 million (= 5,113 million euro) plus interest rate of 5 % since the year 1996. The plaintiff contests the authenticity of a document that granted LB InterFinanz AG to utilize a guarantee. LB InterFinanz's lawyers do not assess the plaintiff's rationale as compelling and expect the District Court to rule in favour of LB InterFinanz AG in the year 2003, otherwise LB InterFinanz AG will appeal the decision at the Supreme Courts. Due to favourable expectations of the LB InterFinanz's lawyers, the Bank issued in April 2003 a guarantee on behalf of LB InterFinanz AG.

5. INTEREST INCOME AND EXPENSE

a) Analysis by type of assets and liabilities

	IN THOUSANDS OF TOLARS	
	Year 2002	Year 2001
Interest income		
Deposits with the Central Bank	353,170	222,121
Loans and advances to other banks	1,167,187	1,677,893
Loans and advances to customers	71,725,001	60,299,033
Deposits to banks	2,207,434	4,030,149
Deposits to customers	181,065	178,776
Debt securities not held for trading	28,774,769	23,439,287
Other assets	168,651	145,957
TOTAL	104,577,277	89,993,216
Interest expense		
Demand deposits from banks	70,644	34,693
Time deposits from banks	3,457,736	3,727,841
Borrowings from banks	5,491,793	6,229,003
Demand deposits from other customers	3,474,717	2,578,581
Time deposits from other customers	52,473,819	42,523,557
Borrowings from other customers	846,581	731,953
Debt securities	3,020,222	2,554,074
Other liabilities	46,218	70,941
TOTAL	68,881,730	58,450,643
NET INTEREST AND SIMILAR INCOME	35,695,547	31,542,573

b) Analysis by sector

	IN THOUSANDS OF TOLARS			
	Year 2002		Year 2001	
	Income	Expenses	Income	Expenses
Enterprises	34,426,945	11,990,706	31,518,776	10,700,603
Government departments and agencies	24,669,853	4,598,420	24,544,253	4,934,141
Banks	18,162,474	9,198,265	12,177,138	10,095,234
Citizens	23,258,044	34,093,120	18,667,571	25,911,805
Other financial organisations	1,809,999	7,813,555	1,731,400	5,585,017
Non-residents	633,436	512,824	402,428	569,219
Non-profit service providers to households	62,118	672,597	68,593	652,728
Default interest	1,554,408	2,243	883,057	1,896
TOTAL	104,577,277	68,881,730	89,993,216	58,450,643

Interest income from loans to foreign banks and to other foreign customers amounted to 2,999,773 thousand tolars as at 31 December 2002, while interest expenses from borrowings and deposits from foreign banks and other foreign customers amounted to 6,736,538 tolars as at 31 December 2002.

6. INCOME FROM CAPITAL AND OTHER INVESTMENTS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Income from investments in subsidiaries and associated companies		
- in subsidiaries		
- banks	1,392,892	1,495,164
- other financial organisations	1,566,714	407,420
- enterprises	3,009	8,332
- in associated companies		
- banks	443,509	355,627
Income from other investments		
- banks	-	16,933
- other financial organisations	17,304	6,475
- enterprises	46	147,914
Income from securities held for trading		
- dividends	133,314	126,131
- interest	7,725,359	3,420,452
TOTAL	11,282,147	5,984,448

7. INCOME AND EXPENSES FROM FEES AND COMMISSIONS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Fees and commissions income		
Payments	6,986,566	4,895,032
Intermediation	8,937,300	3,986,515
Administrative services	4,871,665	3,225,379
Lending	2,110,415	1,595,110
Guarantees	1,952,042	1,669,338
Depositing valuables in safe custody	289,678	288,270
Other services	-	14,772
TOTAL	25,147,666	15,674,416
Fees and commissions expenses		
Banking services	3,182,066	2,372,952
Payments	168,600	153,598
Intermediation	419,111	334,053
Brokerage	132,611	84,764
Other services	328,764	253,396
TOTAL	4,231,152	3,198,763
NET FEES AND COMMISSIONS	20,916,514	12,475,653

Fees and commissions income for the year 2002 includes the amount of 3,028,993 thousand tolars received from a major multi-national company for providing tolars for the purchase of shares of a major Slovenian company.

8. NET (LOSS)/ PROFIT FROM FINANCIAL TRANSACTIONS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Gains from financial transactions		
Income from debt securities not held for trading	4,698	2,040
Income from securities held for trading	2,986,806	1,399,338
Income from valuation of securities:		
- debt securities not held for trading	-	213
- securities held for trading	595,148	375,222
- investments in other companies	26,632	31,198
- other investments	38,635	-
Foreign exchange differences	38,979,647	40,458,690
Income from derivative financial instruments	20,189,420	10,022,009
Income arising from transactions in foreign currency	5,253,943	6,324,739
TOTAL	68,074,929	58,613,449
Losses from financial transactions		
Expenses from securities held for trading	517,976	643,264
Expenses from valuation of securities:		
- debt securities not held for trading	574,859	-
- securities held for trading	2,834,582	1,104,125
- investments in subsidiaries, associated and jointly controlled companies	1,841,158	781,203
- investments in other companies	826,820	69,418
- other investments	53,192	-
Foreign exchange differences	40,849,931	40,250,757
Expenses from derivative financial instruments	19,470,979	9,290,801
Expenses arising from transactions in foreign currency	3,266,650	5,131,433
TOTAL	70,236,147	57,271,001
NET(LOSS)/ PROFIT FROM FINANCIAL TRANSACTIONS	(2,161,218)	1,342,448

The increase in income and expenses from derivative financial instruments in the year 2002 results from the increased volume of transactions in currency swaps with the Bank of Slovenia (see note 38b).

In accordance with the changes to the Slovenian Accounting Standards and amended regulations of the Bank of Slovenia, the Bank changed the presentation of impairment losses on investments in securities and investments in other companies in the year 2002. Prior to adoption of the renewed accounting standards the Bank was, according to the Bank of Slovenia's regulations, required to establish provisions in respect of losses on financial investments. In the income statement for the year 2002 impairment losses on financial investments are presented as losses from financial transaction. Provisions established in previous periods were released and presented as income in the year 2002 (see note 14, 19, 20, 21, 22 and 28).

In the year 2002 the Bank changed its accounting policy in respect of determination of the profit or loss on derecognition of securities from HIFO to FIFO method. The change in accounting policy resulted in an increase in net profit from financial transactions by 240,312 thousand tolars for the year 2002.

9. OTHER OPERATING INCOME**a) Analysis by type**

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Income from non-banking services		
- information technology services	1,489,697	1,559,294
- other services	1,150,698	1,970,896
Income from sale of tangible and intangible assets	324,006	151,019
Other operating income	174,821	171,157
TOTAL	3,139,222	3,852,366

10. EMPLOYEE COSTS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Gross salaries	15,957,288	12,004,790
Social security costs		
- pension security contributions	1,526,474	1,061,134
- social security contributions	1,296,731	847,722
- other contributions	934,517	844,303
Other employee costs	3,428,232	2,200,793
TOTAL	23,143,242	16,958,742

11. COSTS OF MATERIALS AND SERVICES

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Services	7,104,971	4,452,909
Maintenance	3,363,621	2,243,530
Material	2,330,419	1,665,568
Rents	1,865,967	1,779,842
Advertising	1,096,187	914,533
Insurance	651,952	435,784
Travel costs	396,386	333,627
Education and scholarships	266,047	175,048
Entertainment expenses	220,911	233,090
Other expenses	196,464	149,529
TOTAL	17,492,925	12,383,460

12. DEPRECIATION AND REVALUATION EXPENSES FROM PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Depreciation of property and equipment	4,539,858	3,425,911
Amortisation of intangible assets	836,351	494,774
Expenses from tangible and intangible assets	80,540	1,017,417
TOTAL	5,456,749	4,938,102

In the year 2002 the Bank decreased depreciation rates from 25 % to 14.3 % for automated teller machines and from 20 % to 10 % for communication equipment due to extension of their estimated useful lives. The adoption of the new depreciation rates resulted in a decrease in depreciation expenses by 230,599 thousand tolar.

13. OTHER OPERATING EXPENSES

IN THOUSANDS OF TOLARS

	Year 2002	Year 2001
Taxes	33,602	32,939
Membership fees	210,111	182,270
Other employee costs	181,120	-
Charges for general banking risk provisions	543,628	43,082
Other operating expenses	270,365	146,457
TOTAL	1,238,826	404,748

In the year 2002 the Bank established additional provisions for the employment-restructuring program in the amount of 500,000 thousand tolar. According to realized profit for the year 2002 the Bank provided for employee costs in the amount of 181,120 thousand tolar with the purpose of remunerations to key management.

14. NET PROVISIONS FOR BAD AND DOUBTFUL DEBTS AND WRITE OFFS LESS ANY RECOVERIES

a) Provisions and write offs

IN THOUSANDS OF TOLARS

	Year 2002		Year 2001	
	Provisions made	Provisions released	Provisions made	Provisions released
Write off of irrecoverable loans and debts	2,243,025	-	485,280	-
Write back of loans and debts	-	905,132	-	3,444,752
Provisions for A graded balance sheet and off-balance sheet assets	10,870,721	11,070,720	8,612,480	7,425,146
Provisions for other off-balance sheet assets	14,513,408	13,184,867	12,091,053	11,713,427
Country risk provisions	6,377,846	2,224,617	-	-
Provisions for balance sheet assets, classified in other credit rating groups:				
- loans and advances to banks	5,635,703	6,417,397	5,158,742	3,883,106
- loans and advances to other customers	42,708,272	37,355,494	25,874,165	21,360,455
- debt securities not held for trading	-	370,181	22,434	218,049
- securities held for trading	-	636,163	1,598,373	1,530,630
- investments in subsidiaries, associated and jointly controlled companies	-	865,402	865,755	506,166
- other investments	-	763,794	1,480,975	1,834,864
- other assets	2,220,401	2,788,041	4,486,312	3,200,213
- accrued interest due	163,530	-	-	-
Provisions for offsetting by groups	-	-	268,638	582,828
Provisions for other foreseeable risks	1,950,000	-	-	-
TOTAL	86,682,906	76,581,808	60,944,207	55,699,636

Provisions for country risk were in the year 2001 established within specific provisions and stated on the asset side of the balance sheet as allowances for bad and doubtful assets.

b) Other provisions

IN THOUSANDS OF TOLARS				
	Year 2002		Year 2001	
	Provisions made	Provisions released	Provisions made	Provisions released
Negative goodwill	-	214,579	24,517	53,539
Other long-term provisions	500,000	203,459	500,000	-
TOTAL	500,000	418,038	524,517	53,539

15. EXTRAORDINARY PROFIT/(LOSS)

IN THOUSANDS OF TOLARS		
	Year 2002	Year 2001
Extraordinary income		
Income from compensation, rewards and similar	41,935	38,623
TOTAL	41,935	38,623
Extraordinary expenses		
Expenses for penalty and similar	17,138	8,589
Extraordinary expenses due to capital revaluation adjustment	-	1,797,768
TOTAL	17,138	1,806,357
EXTRAORDINARY PROFIT/(LOSS)	24,797	(1,767,734)

16. CASH AND BALANCES WITH THE CENTRAL BANK

IN THOUSANDS OF TOLARS				
	31.12.2002		31.12.2001	
	Tolars	Foreign currency	Tolars	Foreign currency
Cash	12,224,134	5,391,863	9,933,729	35,141,465
Balances with the Central Bank	30,734,468	-	34,144,570	-
Deposits with the Central Bank	7,000,000	-	-	-
	49,958,602	5,391,863	44,078,299	35,141,465
TOTAL	55,350,465		79,219,764	

The Bank is required to maintain an obligatory reserve with the Bank of Slovenia, relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as obligatory reserve is as follows:

- 7 % of time deposits up to 90 days,
- 2 % of time deposits from 91 days to 2 years and deposits in foreign currency up to 2 years.

In December 2002, the obligatory reserve of the Bank amounted to 39,704,380 thousand tolars.

17. PLACEMENTS WITH, AND LOANS TO, OTHER BANKS**a) Maturity analysis**

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Short-term loans		
- in tolar	1,070,000	2,190,000
- in foreign currency	114,365,739	102,904,187
Long-term loans		
- in tolar	240,209	387,354
- in foreign currency	13,583,778	8,253,048
Current portion of long-term loans		
- in tolar	72,289	1,043,130
- in foreign currency	6,081,596	2,687,445
	135,413,611	117,465,164
Provisions	(3,473,318)	(4,255,012)
TOTAL	131,940,293	113,210,152

A detailed maturity analysis of loans to banks is given in Note 44 - Balance sheet maturity analysis.

b) Analysis by type of loan

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Demand deposits	5,191,431	10,785,200
Time deposits	103,570,002	85,304,235
Loans	24,584,374	19,323,676
Called guarantees	21,069	20,259
Other investments	2,046,735	2,031,794
	135,413,611	117,465,164
Provisions	(3,473,318)	(4,255,012)
TOTAL	131,940,293	113,210,152

c) Geographical analysis

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Slovenia	15,539,301	14,459,924
OECD countries	106,629,071	94,516,004
Other countries	9,771,921	4,234,224
TOTAL	131,940,293	113,210,152

d) Analysis by related party

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Subsidiaries	25,791,263	24,048,739
Associated companies	9,484,988	9,574,217
Other banks	100,137,360	83,842,208
	135,413,611	117,465,164
Provisions	(3,473,318)	(4,255,012)
TOTAL	131,940,293	113,210,152

e) Analysis of movements

	IN THOUSANDS OF TOLARS			
	2002		2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	105,014,681	8,195,471	90,860,754	8,978,272
Increase:				
- loans made	7,855,749,952	21,456,714	13,886,230,841	5,118,924
- interest added to principal	293,672	-	1,029,419	45,435
- exchange differences	(1,201,573)	43,041	6,696,270	498,582
- merger of banks	-	-	24,676,222	-
Decrease:				
- repayments	(7,849,496,512)	(8,782,843)	(13,896,752,693)	(28,076)
- write offs	(114,003)	-	-	-
- merger of banks	-	-	(10,826,975)	(2,041,187)
Current portion of long-term loans	7,533,327	(7,533,327)	4,045,242	(4,045,242)
Provisions	1,269,860	(488,167)	(944,399)	(331,237)
Balance at 31 December	119,049,404	12,890,889	105,014,681	8,195,471

18. LOANS AND ADVANCES TO CUSTOMERS**a) Analysis by type of customer**

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In tolar				
- enterprises	113,863,035	126,018,813	113,005,181	139,848,060
- government department and agencies	5,350,349	71,977,578	7,806,842	59,664,696
- citizens	34,568,442	148,399,338	31,902,400	141,440,966
- financial organisations	5,098,326	3,538,629	7,487,312	3,185,731
- non-profit-household service providers	259,324	311,820	206,226	180,313
- non-residents	2,447	-	-	-
In foreign currency				
- enterprises	38,143,305	133,291,517	37,104,548	94,959,281
- government departments and agencies	63,464	1,329,227	119,456	1,532,090
- citizens	141,861	1,950,637	119,187	1,611,384
- financial organisations	256,677	11,909,609	447,024	10,012,975
- non-profit-household service providers	-	9,435	-	32,930
- non-residents	34,480,942	10,932,207	14,259,970	2,910,571
Current portion of long-term loans	121,682,894	(121,682,894)	113,434,194	(113,434,194)
	353,911,066	387,985,916	325,892,340	341,944,803
Provisions	(29,201,446)	(8,591,811)	(26,008,887)	(6,430,840)
	324,709,620	379,394,105	299,883,453	335,513,963
TOTAL	704,103,725		635,397,416	

The total amount of non-performing loans (C, D and E grading groups) amounted to 38,097,569 thousand tolar as at 31 December 2002, while loans overdue amounted to 18,014,584 thousand tolar. Interest income from non-performing loans, not recognised as income, amounted to 3,758,349 thousand tolar as at 31 December 2002.

b) Analysis by sector

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Citizens	164,767,165	155,496,867
Manufacturing	139,434,971	114,726,838
Commerce and finance	137,671,409	113,502,688
Services	97,908,471	82,181,982
Transport and communication	72,188,975	78,631,847
Ministries	48,457,615	43,193,706
Energy	21,664,522	27,825,146
Small enterprises	21,136,157	19,705,422
Construction	22,598,506	16,598,118
Agriculture, forestry and fishing	6,966,273	4,400,135
Mining	3,525,333	2,948,847
Other	5,577,585	8,625,547
	741,896,982	667,837,143
Provisions	(37,793,257)	(32,439,727)
TOTAL	704,103,725	635,397,416

c) Analysis by type of advance

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Loans	693,162,487	633,198,963
Overdrafts	36,246,417	26,645,775
Called guarantees	2,190,809	2,609,469
Purchased loans and receivables	6,446,935	3,597,181
Other investments	3,850,334	1,785,755
	741,896,982	667,837,143
Provisions	(37,793,257)	(32,439,727)
TOTAL	704,103,725	635,397,416

d) Guaranteed loans

Loans, which are guaranteed by the Republic of Slovenia or other Slovenian banks, are as follows:

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Loans:		
- Republic of Slovenia guarantees	81,988,646	90,615,847
- Other bank's guarantees	5,587,827	4,223,500
TOTAL	87,576,473	94,839,347

e) Geographical analysis

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Slovenia	25,872,925	
OECD countries	6,340,996	
Other countries	671,889,804	
TOTAL	704,103,725	

f) Analysis by related party

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Subsidiaries	33,886,426	22,458,257
Associated companies	1,431,557	262,457
Other investments	7,256,007	8,741,282
Other customers	699,322,992	636,375,147
	741,896,982	667,837,143
Provisions	(37,793,257)	(32,439,727)
TOTAL	704,103,725	635,397,416

g) Analysis of movements

IN THOUSANDS OF TOLARS

	2002		2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	299,883,453	335,513,963	202,840,549	239,350,445
Increase:				
- loans made	777,083,721	195,000,369	449,825,171	171,689,231
- interest added to principal	4,574,709	14,229,240	3,039,995	12,964,160
- exchange differences	1,651,589	2,040,343	3,939,169	4,905,951
- merger of banks	-	-	75,850,259	45,314,441
Decrease:				
- repayments	(900,316,441)	(18,345,914)	(556,669,518)	(12,854,040)
- write offs	(1,846,081)	(11,692)	(278,195)	(169)
Current portion of long-term loans	146,871,229	(146,871,229)	126,310,174	(126,310,174)
Provisions	(3,192,559)	(2,160,975)	(4,974,151)	454,118
Balance at 31 December	324,709,620	379,394,105	299,883,453	335,513,963

19. DEBT SECURITIES NOT HELD FOR TRADING**a) Analysis by type of securities, available for sale**

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
- certificate of deposit of the Bank of Slovenia	195,345,302	-	161,343,184	-
- bonds	-	287,919	-	370,180
In tolar				0
- bonds of the Republic of Slovenia	-	85,190,299	-	110,038,337
- bonds from others	-	1,148,411	-	1,110,004
- certificate of deposit of the Bank of Slovenia	173,871,923	-	58,041,674	-
- treasury bills	-	-	10,429,778	-
Current portion of investment securities	4,058,996	(4,058,996)	4,233,625	(4,233,625)
	373,276,221	82,567,633	234,048,261	107,284,896
Provisions	-	-	-	(370,180)
	373,276,221	82,567,633	234,048,261	106,914,716
TOTAL	455,843,854		340,962,977	

Other securities include Factor bank d.d. bonds with a total value of 150,000 thousand tolar which have the nature of a subordinate debt. Other than interest entitlement (at an annual rate of TOM + 6 per cent) and the right to repayment of the principal the Bank does not have any other rights deriving from these bonds.

The market value of debt securities available for sale exceeds their carrying value by 35,812 thousand tolar as at 31 December 2002 (636,395 thousand tolar as at 31 December 2001).

b) Analysis by type of securities, held to maturity

	IN THOUSANDS OF TOLARS			
	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
- bonds of the Republic of Slovenia	-	2,179,894	-	2,825,117
- other bonds	-	22,858	-	-
In tolar				
- bonds of the Republic of Slovenia	-	21,864,259	-	20,453,427
Current portion of investment securities	484,421	(484,421)	518,352	(518,352)
	484,421	23,582,590	518,352	22,760,192
TOTAL	24,067,011		23,278,544	

At 31 December 2002 debt securities not held for trading amounting to 30,086,346 thousand tolar were listed on the stock exchange (27,266,116 thousand tolar as at 31 December 2001).

c) Analysis of movements

	IN THOUSANDS OF TOLARS			
	2002		2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	234,048,260	130,193,261	101,884,239	106,963,599
Increase:				
- purchase of securities	427,162,543	760,420	294,693,964	212,812
- revaluation and exchange differences	6,997,430	7,690,702	6,166,679	8,837,414
- reversal of impairment and provisions released	-	370,180	26	195,803
- merger of banks	-	-	40,835,661	21,450,656
Decrease:				
- sale or repayments of securities	(274,317,050)	(9,609,768)	(209,537,442)	(218,049)
- impairment	(12)	(574,846)	-	-
- transfer to securities held for trading	(24,550,478)	(18,259,777)	(3,960,745)	(3,283,096)
Current portion of long-term securities	4,419,949	(4,419,949)	3,965,878	(3,965,878)
Balance at 31 December	373,760,642	106,150,223	234,048,260	130,193,261

20. SECURITIES HELD FOR TRADING**a) Analysis by type of securities**

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Bonds		
- Republic of Slovenia	65,923,336	17,199,364
- other issuers	26,086,611	39,294,883
Shares		
- banks	102,401	172,559
- other issuers	14,092,275	15,499,336
Treasury bills	14,998,860	501,477
Other securities	68,805	228,573
	121,272,288	72,896,192
Provisions	-	(636,163)
TOTAL	121,272,288	72,260,029

At 31 December 2002 the securities held for trading amounting to 87,799,497 thousand tolars were listed on the stock exchange (58,922,966 thousand tolars as at 31 December 2001)

The market value of securities held for trading exceeds their carrying value by 4,556,394 thousand tolars as at 31 December 2002 (1,131,946 thousand tolars as at 31 December 2001).

Other securities include Factor bank d.d. bonds with a total value of 251,300 thousand tolars, which have the nature of a subordinate debt. Other than its interest entitlement and the right to repayment of the principal the Bank doesn't have any other rights deriving from these bonds. Other securities include also NLB bonds in the amount of 3,401 thousands tolars.

b) Analysis of movements

IN THOUSANDS OF TOLARS

	2002	2001
Balance at 1 January	72,260,029	43,894,596
Increase:		
- purchase of securities	206,503,803	111,820,483
- transfer from securities not held for trading	42,810,255	7,243,841
- revaluation and exchange differences	883,026	2,871,606
- merger of banks	-	3,911,638
- provisions released	636,163	-
Decrease:		
- sale of securities	(199,581,529)	(96,673,604)
- valuation at fair value	(2,239,459)	(796,647)
- write offs	-	(11,884)
Balance at 31 December	121,272,288	72,260,029

21. INVESTMENTS IN SUBSIDIARIES, ASSOCIATED AND JOINTLY CONTROLLED COMPANIES

a) Analysis by type of investment in subsidiaries

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
In tolars		
- banks	10,084,278	9,640,786
- other financial organisations	5,440,147	4,380,063
- enterprises	3,181,524	3,845,228
In foreign currency		
- banks	9,229,757	13,662,252
- other financial organisations	2,283,861	1,468,760
	30,219,567	32,997,089
Provisions	-	(865,132)
TOTAL	30,219,567	32,131,957

The Bank's subsidiaries are:

	IN THOUSANDS OF TOLARS				
	Equity as at 31 December 2002	Profit for the period 2002	Bank's shareholding in %	Voting rights in %	Balance of investment investment December 2002
Koroška banka d.d., Slovenj Gradec	12,193,580	1,287,422	41.33	41.51	4,844,885
Banka Domžale d.d., Domžale	7,480,123	756,872	40	40	2,906,723
Banka Zasavje d.d., Trbovlje	5,909,562	313,886	40	41,85	2,332,670
LHB Internationale Handelsbank AG, Frankfurt/Main	14,586,906	271,663	56.01	56.25	8,170,034
Tutunska banka a.d., Skopje	7,146,133	901,004	16.64	18.38	1,059,723
LB InterFinanz AG, Zürich	1,779,202	231,851	100	100	1,771,503
LB Factoring CZ, a.s., Ostrava	519,707	80,136	100	100	512,358
LB HIPO d.o.o., Ljubljana	3,401,579	10,905	100	100	2,855,985
LB Leasing d.o.o., Ljubljana	2,322,850	163,032	100	100	2,342,860
LB Maksima d.o.o., Ljubljana	3,489,108	1,279,428	83.97	83.97	2,927,774
Real d.o.o., Novo mesto	234,079	(114,622)	90	90	210,671
FIT Leasing d.o.o., Velenje	(141,641)	(308,729)	100	100	-
Feniks d.o.o., Murska Sobota	171,298	16,061	100	100	169,513
Prospera plus d.o.o., Ljubljana	115,126	3,268	100	100	114,868
LB Trading d.o.o., Ljubljana	(53,236)	(2,478)	100	100	-

Investments in Koroška banka d.d, Slovenj Gradec , Banka Domžale d.d., Domžale and Banka Zasavje d.d., Trbovlje are treated as investments in subsidiaries due to specific contractual agreement, which ensures control by NLB, while Tutunska Banka was treated as a subsidiary due to the majority share held by the NLB Group.

In April 2002 NLB acquired 100 % share of the company LB Factoring CZ, a.s., Ostrava, Czech Republic which provides factoring and forfeiting services

In the year 2002 the Bank sold its wholly owned subsidiary LBS Bank, New York to KBC Bank at the price of 4,930,082 thousand tolars and with the carrying value of 4,989,672 thousand tolars as at the date of the sale. Due to contractual agreement the Bank assumed the obligation to cover expenses related to the liquidation process of LBS Bank. Expenses of the subsidiary liquidation process in the amount of 663,212 thousand tolars are presented as accrued expenses. The Bank also redeemed investments in the amount of 60,079 thousand US dollars from LBS Bank.

b) Analysis by type of investment in associated companies

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
In tolars		
- banks	7,271,143	2,486,163
- other financial organisations	326,796	278,379
- enterprises	500,223	237,580
In foreign currency		
- banks	1,928,526	1,002,728
	10,026,688	4,004,850
Provisions	-	(270)
TOTAL	10,026,688	4,004,580

The principal associated companies are:

	Activity	IN THOUSANDS OF TOLARS				
		Equity as at 31 December 2002	Profit for the period 2002	Bank's sharehold- ing in %	Voting rights in %	Balance of investment as of 31 December 2002
Banka Celje d.d., Celje	Banking	24,808,336	2,513,886	36.56	36.56	7,271,143
Adria Bank AG., Vienna	Banking	7,221,413	217,603	26.27	28.46	1,928,526
Bankart d.o.o., Ljubljana	Credit and payment cards	1,361,523	107,681	36.74	36.74	500,223
Skupna pokojninska družba d.d., Ljubljana	Insurance	851,181	(113,819)	26.94	26.94	199,577

In the year 2002 the Bank increased its voting share in Banka Celje to 36.56 %.

Jointly controlled companies are:

	Activity	IN THOUSANDS OF TOLARS				
		Equity as at 31 December 2002	Profit for the period 2002	Bank's sharehold- ing in %	Voting rights in %	Balance of investment as of 31 December 2002
Bančno-zavarovalna družba d.o.o., Ljubljana	Insurance	1,279	(755)	50	50	1,500
LB Factors d.o.o., Ljubljana	Finance	836,547	(711)	15	15	125,719

In November 2002 Slovenska izvozna družba d.d., Ljubljana (SID) purchased additional capital in LB Factors d.o.o., Ljubljana, a subsidiary of the NLB Group. Due to the contractually agreed sharing of control over business activities, LB Factors d.o.o., Ljubljana, became a jointly controlled company by both NLB and SID. LB Factors is now 50 % owned by the NLB Group.

c) Analysis of movement

	IN THOUSANDS OF TOLARS	
	2002	2001
Balance at 1 January	36,136,537	39,166,074
New investments	1,855,907	166,351
Increase due to merger of banks	-	1,723,491
Transfer from investments in other companies	-	736,822
Revaluation and exchange differences	84,466	2,508,750
Decrease due to merger of banks	-	(9,932,718)
Valuation at equity method	6,847,093	2,169,774
Impairment	(553,478)	-
Sale of investments	(4,989,672)	(42,418)
Provisions	865,402	(359,589)
Balance at 31 December	40,246,255	36,136,537

According to the new Slovenian Accounting Standards the Bank adjusted the carrying amount of investments in associated and jointly controlled companies to its share of the fair values of the net identifiable assets. Adjustment resulted in an increase of value of investments by 3,824,199 thousand tolars. Investments were also adjusted for the Bank's share of profits and losses by the amount of 788,908 thousand tolars. Positive effects arising from the use of the equity method of accounting were reported under a specific capital revaluation adjustment in the balance sheet, while negative effects were reported in the income statement as expenses from revaluation.

22. INVESTMENTS IN OTHER COMPANIES

a) Analysis by type of investment

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
In tolar		
- other financial organisations	513,797	414,997
- enterprises	368,000	1,837,765
In foreign currency		
- other financial organisations	427,759	648,869
- enterprises	4,572	4,396
	1,314,128	2,906,027
Provisions	-	(763,794)
TOTAL	1,314,128	2,142,233

b) Analysis of movements

	IN THOUSANDS OF TOLARS	
	2002	2001
Balance at 1 January	2,142,233	1,778,845
Increase due to merger of banks	-	676,482
New investments	98,800	183,246
Sale of investments	(818,269)	(652,110)
Revaluation and exchange differences	(46,041)	175,125
Transfer to investments in subsidiaries, associated and jointly controlled companies	-	(736,822)
Impairment	(826,389)	363,579
Provisions	763,794	353,888
Balance at 31 December	1,314,128	2,142,233

23. INTANGIBLE ASSETS

	IN THOUSANDS OF TOLARS				
	Software	Deferred costs	Deferred interest	Intangible assets in course of transfer or implementation	Total
Cost or valuation					
- at 1 January 2002	2,714,982	1,458,052	24,000	3,391,403	7,588,437
Additions	6,648,153	163,853	-	6,450,905	13,262,911
Disposals	(30,556)	(15,746)	(24,000)	(6,836,856)	(6,907,158)
- at 31 December 2002	9,332,579	1,606,159	-	3,005,452	13,944,190
Depreciation					
- at 1 January 2002	863,174	1,022,624	-	-	1,885,798
Disposals	(19,364)	(38,259)	-	-	(57,623)
Charge for the year	664,085	172,266	-	-	836,351
- at 31 December 2002	1,507,895	1,156,631	-	-	2,664,526
Net carrying value					
- at 1 January 2002	1,851,808	435,428	24,000	3,391,403	5,702,639
- at 31 December 2002	7,824,684	449,528	-	3,005,452	11,279,664

Under intangible assets the Bank's new information system is presented with the carrying value of 7,673,919 thousand tolar.

24. PROPERTY AND EQUIPMENT

IN THOUSANDS OF TOLARS

	Land and Buildings	Computers	Furniture and Equipment	Motor Vehicles	Assets in Course of Transfer or Implementation	Total
Cost or valuation						
- at 1 January 2002	39,169,161	18,785,259	11,783,190	844,502	640,907	71,223,019
Addition	93,374	3,354	2,890	703	6,784,322	6,884,643
Transfers	1,564,494	2,900,004	1,336,368	39,094	(5,839,960)	-
Disposals	(1,024,718)	(1,339,839)	(707,622)	(119,493)	(105,361)	(3,297,033)
- at 31 December 2002	39,802,311	20,348,778	12,414,826	764,806	1,479,908	74,810,629
Depreciation						
- at 1 January 2002	10,383,112	13,129,581	7,406,051	605,331	-	31,524,075
Disposals	(357,194)	(1,293,573)	(702,053)	(118,255)	-	(2,471,075)
Charge for the year	763,458	2,255,400	1,423,969	97,031	-	4,539,858
- at 31 December 2002	10,789,376	14,091,408	8,127,967	584,107	-	33,592,858
Net carrying value						
- at 1 January 2002	28,786,049	5,655,678	4,377,139	239,171	640,907	39,698,944
- at 31 December 2002	29,012,935	6,257,370	4,286,859	180,699	1,479,908	41,217,771

Due to adoption of new Slovenian Accounting Standards the Bank tested the property's value in use by the independent qualified valuer in the year 2002. The value in use exercise was based on estimating present value of the future cash flows from continuing use and disposal. The exercise results proved that property is not impaired.

There are no assets held under finance lease in the Bank's financial statements for the year 2002 (31 December 2001: 3,995 thousand tolars).

25. OWN SHARES

In accordance with the amended Companies Act the Bank disposed 3,944 own shares in the nominal value of 7,888 thousand tolars at price of 106,388 thousands tolars in the year 2002. Gain on the sale of own shares, amounting to 56,134 thousand tolars, was recorded in equity reserves.

There were no contractual agreements in the year 2002 between the Bank and third parties for the acquisition or disposal of NLB's shares on behalf of NLB no there were any contractual agreements for pledge of NLB's shares as collateral on behalf of NLB.

In accordance with information from the Clearing House 635 own shares at the end of the year 2002 were pledged on behalf of NLB at nominal value 1,270 thousand tolars, which presents 0.01 % of the subscribed capital of NLB.

Shares of the Bank held by its subsidiaries LB Trading d.o.o., Ljubljana, LB Hipo d.o.o., Ljubljana and Koroška Banka d.d., Zasavje amounted to 490,828 thousand tolars as at 31 December 2002. In respect of these shares the Bank formed an own shares fund.

26. OTHER ASSETS

a) Analysis by type of asset

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Accrued interest due	3,750,543	4,518,850
Fees and commissions due	251,644	322,024
Credit cards receivables	9,850,489	9,057,616
Non authorized overdrafts	3,801,435	3,760,081
Derivative financial instruments	998,967	666,152
Debtors	850,506	315,565
Investment property	694,495	823,744
Assets acquired for debt repayment	321,703	401,384
Claims for taxes and other dues	1,026,672	65,459
Stocks	112,788	107,466
Prepayments	256,968	557,487
Cheques	255,736	336,389
Receivables in the course of collection	75,418	995,790
Net receivables from intercompany relations	5,071	45,298
Other assets	1,213,766	2,647,073
	23,466,201	24,620,378
Provisions	(4,029,647)	(4,597,287)
TOTAL	19,436,554	20,023,091

In the year 2002 due to adoption of new Slovenian Accounting Standards and the Bank of Slovenia's methodology for the presentation of financial statements the Bank transferred investment property and property acquired for debt repayment from property and equipment to other assets.

b) Movement of investment property

	IN THOUSANDS OF TOLARS	
	31.12.2002	
Balance at 1 January	823,744	
Sale of investment property	(111,643)	
Depreciation	(17,606)	
Balance at 31 December	694,495	

c) Analysis of provisions by type of asset

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Credit card receivables	250,997	656,664
Non authorized overdrafts	3,614,505	3,481,527
Accrued interest due	-	81,383
Fees and commissions due	-	8,690
Other assets	164,145	369,023
TOTAL	4,029,647	4,597,287

d) Analysis of allowances for bad and doubtful income by type of asset

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Accrued interest due	3,642,182	3,507,105
Accrued interest not yet due	1,597,298	736,449
Fees and commissions due	60,531	79,465
Debtors	59,422	66,095
TOTAL	5,359,433	4,389,114

27. ACCRUED INCOME AND DEFERRED EXPENSES

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Accrued interest not yet due	12,747,862	8,370,044
Accrued fees not yet due	22,690	28,494
Deferred expenses	322,779	174,903
TOTAL	13,093,331	8,573,441

28. MOVEMENTS IN SPECIFIC PROVISIONS BY TYPE OF ASSET

IN THOUSANDS OF TOLARS

	Balance at 1 January 2002	Share in gross assets in %	Specific provisions made	Specific provisions released	Balance at 31 December 2002	Share in gross assets in %
Placements with, and loans to other banks	4,255,012	3.62	5,635,703	(6,417,397)	3,473,318	2.56
Placements with, and loans to other customers	32,439,727	4.86	42,708,272	(37,354,742)	37,793,257	5.09
Debt securities not held for trading	370,181	0.10	-	(370,181)	-	-
Securities held for trading	636,163	0.87	-	(636,163)	-	-
Investments in subsidiaries, associated and jointly controlled companies	865,402	2.34	-	(865,402)	-	-
Other investments	763,794	26.28	-	(763,794)	-	-
Other assets	4,597,287	18.67	2,220,401	(2,788,041)	4,029,647	17.48
TOTAL	43,927,566		50,564,376	(49,195,720)	45,296,222	

29. DEPOSITS AND BORROWINGS FROM BANKS

a) Analysis of deposits

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
On demand		
- in tolar	1,275,894	441,451
- in foreign currency	8,716,866	12,082,729
Other short-term deposits		
- in tolar	32,142,552	37,717,549
- in foreign currency	42,003,550	30,461,938
Long-term deposits		
- in tolar	37,000	110,000
- in foreign currency	705,194	-
Current portion of long-term deposits		
- in tolar	100,000	50,000
- in foreign currency	5,757	-
TOTAL a)	84,986,813	80,863,667

b) Analysis of borrowings

	IN THOUSANDS OF TOLARS			
	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
In tolar				
- Central Bank	-	-	-	35,302
- other banks	-	-	5,700,000	-
In foreign currency				
- commercial banks	2,372,718	123,033,488	447,819	106,485,995
Current portion of long-term borrowings	30,055,041	(30,055,041)	27,530,025	(27,530,025)
TOTAL b)	32,427,759	92,978,447	33,677,844	78,991,272
TOTAL a) and b)	116,672,378	93,720,641	114,431,511	79,101,272
TOTAL	210,393,019		193,532,783	

Overview of more significant borrowings from banks:

IN THOUSANDS OF TOLARS

Foreign currency loans received	Currency	Maturity date	Interest rate	31.12.2002
West LB, AG London	EUR	06.11.2007	EURIBOR + 0.30% p.a.	21,875,393
INTESA BCI, London	EUR	22.11.2005	EURIBOR + 0.30% - 0.35% p.a.	21,491,615
ING Bank N.V., London	EUR	30.10.2006	EURIBOR + 0.30% p.a.	18,421,384
Societe Generale Paris	EUR	21.05.2004	LIBOR + 0.22% p.a.	4,075,401
Barclays Bank PLC, London	EUR	19.06.2005	LIBOR + 0.35% - 0.45% p.a.	3,169,756
Bayerische Landesbank Girozentrale, München	EUR	09.12.2007	6 months EURIBOR + 0.60% p.a.	2,763,208
Landesbank Hessen -Thüringen Girozentrale, Frankfurt/Main	EUR	29.03.2012	Interest rate for EUR 10,260,619,74 is 5.80% p.a. fixed Interest rate for EUR 1,553,368,16 is 3 months EURIBOR + 0.50% p.a till 31.03.2008; after that date the interest rate is 3 months EURIBOR + 0.60% p.a.	2,236,753
WGZ Bank - Westdeutsche Genossenschafts - Zentralbank eG, Düsseldorf	EUR	20.12.2007	6 months EURIBOR + 0.55% p.a.	1,727,005
Mediocredito Centrale, Roma	EUR	03.09.2010	1.75% p.a. fixed	1,716,202
Raiffeisen Zentralbank Österreich AG, Wien	EUR	29.03.2012	3 months EURIBOR 0.50% - 0.60% p.a.	1,649,598

c) Analysis by related party

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Subsidiary banks	33,948,572	27,302,162
Associated banks	6,603,114	13,410,438
Other banks	169,841,333	152,820,183
TOTAL	210,393,019	193,532,783

Loans received by LHB Internationale Handelsbank AG, Frankfurt/Main, a subsidiary bank of NLB are:

				IN THOUSANDS OF TOLARS
Foreign currency loans received	Currency	Maturity date	Interest rate	31.12.2002
	EUR	12.03.2004	5.85% p.a. fixed	50,458
	EUR	22.01.2005	6 months EURIBOR + 1 % p.a.	588,669
	EUR	21.01.2006	6 months EURIBOR + 1 % p.a.	612,216
	EUR	09.05.2005	5.4% p.a. fixed	252,288

d) Analysis of movements

					IN THOUSANDS OF TOLARS		
					2002	2001	
	Short-term		Long-term		Short-term	Long-term	
Balance at 1 January	114,431,511	79,101,272	98,744,372			65,154,289	
Increase:							
- new borrowings and deposits	7,573,385,308	46,249,907	6,406,384,490			34,524,408	
- exchange differences	1,544,192	3,100,111	3,565,904			3,166,683	
- interest added to principal	8,872	-	25,517			-	
- merger of banks	-	-	8,723,327			3,991,927	
Decrease:							
- repayments	(7,604,095,929)	(3,332,225)	(6,417,714,532)			-	
- merger of banks	-	-	(10,992,415)			(2,041,187)	
Current portion of long-term liabilities	31,398,424	(31,398,424)	25,694,848			(25,694,848)	
Balance at 31 December	116,672,378	93,720,641	114,431,511			79,101,272	

30. DEPOSITS AND BORROWINGS FROM OTHER CUSTOMERS**a) Analysis by type of customer**

IN THOUSANDS OF TOLARS

	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
Demand deposits				
Enterprises				
- in tolar	42,155,079	-	42,130,774	-
- in foreign currency	28,144,795	-	28,275,468	-
Government departments and agencies				
- in tolar	16,858,358	-	7,116,243	-
- in foreign currency	568,646	-	423,623	-
Citizens				
- in tolar	153,261,526	-	124,194,215	-
- in foreign currency	127,807,186	-	124,875,115	-
Other financial organisations				
- in tolar	1,205,794	-	3,476,291	-
- in foreign currency	658,853	-	456,729	-
Non-profit household service providers				
- in tolar	6,019,186	-	5,006,491	-
- in foreign currency	576,212	-	585,785	-
Non-residents				
- in tolar	1,340,589	-	1,175,194	-
- in foreign currency	10,894,034	-	10,079,320	-
Time deposits				
Enterprises				
- in tolar	80,972,682	24,199,934	70,042,540	24,305,809
- in foreign currency	25,315,169	93,982	20,400,325	78,648
Government departments and agencies				
- in tolar	39,955,414	15,220,924	27,649,550	10,562,918
- in foreign currency	138,911	-	124,282	-
Citizens				
- in tolar	224,216,080	74,610,826	194,138,464	53,001,329
- in foreign currency	118,834,163	36,129,327	109,632,710	35,257,342
Other financial organisations				
- in tolar	16,985,016	27,447,973	13,819,290	33,215,428
- in foreign currency	2,154,758	36,595	104,062	35,188
Non-profit household service providers				
- in tolar	4,221,491	2,002,505	3,573,814	1,953,471
- in foreign currency	2,022,076	98,094	1,818,459	-
Non-residents				
- in tolar	394,041	158,323	272,631	67,923
- in foreign currency	8,224,439	4,922,889	8,983,377	5,224,562
Current portion of long-term deposits	102,369,238	(102,369,238)	103,075,073	(103,075,073)
TOTAL a)	1,015,293,736	82,552,134	901,429,825	60,627,545

b) Analysis by type of customer

IN THOUSANDS OF TOLARS					
		31.12.2002		31.12.2001	
		Short-term	Long-term	Short-term	Long-term
Government departments and agencies					
- in foreign currency		-	5,368,707	-	7,136,650
Other financial organisations					
- in tolar		4,728,740	1,422,674	5,063,193	445,263
- in foreign currency		-	8,132,713	-	3,533,789
Non-residents					
- in foreign currency		-	1,092,666	-	1,269,662
Current portion of long-term borrowings		2,374,989	(2,374,989)	2,336,434	(2,336,434)
TOTAL b)		7,103,729	13,641,771	7,399,627	10,048,930
TOTAL a) and b)		1,022,397,465	96,193,905	908,829,452	70,676,475
TOTAL		1,118,591,370	979,505,927		

c) Analysis by related party

			IN THOUSANDS OF TOLARS	
			31.12.2002	31.12.2001
Subsidiaries			3,906,826	3,223,619
Associated companies			361,096	166,726
Other investments			17,277,081	16,427,587
Other customers			1,097,046,367	959,687,995
TOTAL			1,118,591,370	979,505,927

Loans received by LB Interfinanz AG, Zürich, a subsidiary company of NLB are:

					IN THOUSANDS OF TOLARS
Foreign currency loans received	Currency	Maturity date	Interest rate	31.12.2002	
	CHF	21.11.2005	6 months CHF LIBOR + 1.875% p.a.	121,626	
	CHF	12.06.2006	6 months CHF LIBOR + 1.5% p.a.	74,968	
	CHF	26.08.2008	6 months CHF LIBOR + 1.375% p.a.	427,006	

d) Analysis of movements

IN THOUSANDS OF TOLARS

	2002		2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	908,829,452	70,676,475	537,054,854	67,049,472
Increase:				
- new borrowings and deposits	18,638,936,272	127,064,109	14,245,613,059	137,947,273
- exchange differences	4,272,058	510,719	12,418,129	4,862,268
- interest added to principal	22,820,188	12,526,124	15,129,754	9,427,767
- merger of banks	-	-	169,550,487	15,515,159
Decrease:				
- repayments	(18,666,405,355)	(638,672)	(14,187,317,431)	(47,744,864)
Current portion of long-term liabilities	113,944,850	(113,944,850)	116,380,600	(116,380,600)
Balance at 31 December	1,022,397,465	96,193,905	908,829,452	70,676,475

31. DEBT SECURITIES**a) Maturity analysis**

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Short-term liabilities		
- in tolar	188,753	890,539
- in foreign currency	9,064	73,771
Long-term liabilities		
- in tolar	76,156,814	12,226,333
Current portion of long-term liabilities		
- in tolar	-	8,940,606
TOTAL	76,354,631	22,131,249

A detailed maturity analysis of bonds is given in Note 44 - Balance sheet maturity analysis.

b) Analysis of debt securities and certificates of deposits by related parties

IN THOUSANDS OF TOLARS

	31.12.2002	31.12.2001
Subsidiaries	230,267	-
Associated companies	3,250,000	-
Other investments	6,574,339	2,483,998
Other customers	66,530,292	19,647,251
TOTAL	76,584,898	22,131,249

32. OTHER LIABILITIES**a) Analysis by type of liability**

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Accrued interest due	1,052,711	1,073,922
Fees and commissions due	25,020	368,376
Liabilities to traders for credit cards	5,081,052	4,443,088
Suppliers	4,621,762	2,886,246
Accrued salaries	2,245,913	1,311,222
Taxes payable	1,733,809	1,747,599
Derivative financial instruments	1,139,663	800,685
Payments received in advance	706,063	57,200
Items in the course of payment	713,544	1,036,053
Liabilities for received cash in foreign currency	84,329	8,085,505
Net liabilities from funds managed on behalf of third parties	72,396	82,410
Other liabilities	1,394,346	837,252
TOTAL	18,870,608	22,729,558

33. ACCRUALS AND DEFERRED INCOME

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Accrued interest not yet due	16,047,506	14,701,835
Items in course of collections	292,958	423,684
Accrued expenses	1,051,492	64,693
Deferred income	415,869	530,701
TOTAL	17,807,825	15,720,913

34. PROVISIONS FOR LIABILITIES AND CHARGES**a) Analysis by type of provision**

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Provisions for A graded balance sheet and off-balance sheet assets	9,178,043	9,385,217
Provisions for other off-balance sheet assets	10,414,489	9,085,948
Provisions for country risk	4,153,229	-
Provisions for other foreseeable risks	1,950,000	-
Negative goodwill	804,673	1,019,252
Other provisions	1,289,772	2,243,321
TOTAL	27,790,206	21,733,738

Other provisions include:

- restructuring provisions and provisions for pensions amounting to 1,179,308 thousand tolars (31 December 2001: 1,478,013 thousand tolars),
- provisions for resolving the issues of unconfirmed transactions of debt conversion under the New Financial Agreement in the amount of 110,464 thousand tolars (31 December 2001: 110,464 thousand tolars).

b) Analysis of movements

IN THOUSANDS OF TOLARS

	Balance at 1 January 2002	Provisions made	Provisions released	Provisions utilised	Balance at 31 December 2002
Provisions for A graded balance sheet and off-balance sheet assets	9,385,217	10,870,721	(11,077,895)	-	9,178,043
Provisions for other off-balance sheet assets	9,085,948	14,513,408	(13,184,867)	-	10,414,489
Provisions for country risk	-	6,377,846	(2,224,617)	-	4,153,229
Negative goodwill	1,019,252	-	(214,579)	-	804,673
Provisions for other foreseeable risks	-	1,950,000	-	-	1,950,000
Other provisions	2,243,321	1,043,628	(203,459)	(1,793,718)	1,289,772
TOTAL	21,733,738	34,755,603	(26,905,417)	(1,793,718)	27,790,206

In the year 2001 the Bank had a legal proceeding with Tržaška Kreditna Banka (TKB) due to deposits withdrawal performed the year before the start of liquidation process of TKB. In the year 2001 and in the beginning of the year 2002 the Bank established a provision against potential claims in the amount of 1,000,000 thousand tolars. Due to out of court settlement at the end of the year 2002 in the amount of 951,385 thousand tolars, the unused provision was released to income.

35. PROVISIONS FOR GENERAL BANKING RISKS

IN THOUSANDS OF TOLARS

	2002	2001
Balance at 1 January	3,428,616	2,536,371
Provisions made	750,000	892,245
Transfer to provisions for other foreseeable risks	(1,950,000)	-
Balance at 31 December	2,228,616	3,428,616

36. SUBORDINATED LIABILITIES

IN THOUSANDS OF TOLARS

	Currency	Due date	Interest rate	31.12.2002	31.12.2001
Subordinated loans	EUR	3.7.2006	EURIBOR + 2.5 %	5,756,683	5,535,237
	EUR	2.7.2007	EURIBOR + 2.3 %	8,059,355	7,749,333
	EUR	24.7.2012	EURIBOR + 1.2 %	20,724,057	-
TOTAL				34,540,095	13,284,570

In accordance with the Decree on the calculation of capital, capital requirements and capital adequacy of Banks and Savings Banks, four subordinated long-term loans are included in the Bank's Tier 2 capital. The loan agreements do not contain any provisions on conversion to capital or any other liabilities.

In the year 2002, interest and commission expenses of the Bank on the basis of these loans amounted to 1,364,224 thousand tolars.

Subordinate liabilities include a loan received by KBC bank with the contractual provision that gives NLB the right to prepay the whole or any part of the loan (being a minimum amount of 5,000 thousand euro) at any time beyond five years after the date of contractual agreement.

37. SUBSCRIBED CAPITAL

a) Analysis of subscribed capital by type of shareholder

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Enterprises	1,240,070	1,779,384
Government departments and agencies	6,305,132	12,164,250
Banks	6,063,012	99,900
Other financial organisations	1,613,664	1,254,760
Citizens	142,152	57,848
Own shares	-	7,888
TOTAL	15,364,030	15,364,030

As at 31 December 2002 7,682,015 ordinary shares represented the capital of the Bank, each with a nominal value of 2,000 tolar. Shares are issued in non-material form and registered in the Clearing House. All shares are ordinary and inscribed.

At 31 December 2002 there were 959 shareholders. The Bank's shareholders are 265 corporate entities, 691 citizens and 3 non-residents. In September 2002 in the privatisation process of the Bank the Republic of Slovenia sold 34 % equity share to KBC bank and a 5 % equity share to EBRD. At the end of the first phase of privatisation process the Republic of Slovenia remains the majority shareholder with a holding of 2,743,284 shares being 35.71 % of equity share as at 31 December 2002.

According to the decision of the Assembly, in the year 2002 the Bank paid a dividend of 428.52 tolar per share for the year 2001 amounting to 3,291,962 thousand tolar and remunerations to the Management Board amounting to 5,273 thousand tolar.

The Management board of NLB is authorized to issue additional capital with the previous consensus of Supervisory board at amount not exceeding 2,306,124 thousand tolar in the period of 6 months following the date of entry in the register of companies.

b) Components of equity

	IN THOUSANDS OF TOLARS	
	31.12.2002	31.12.2001
Subscribed capital	15,364,030	15,364,030
Equity reserves	13,603,376	13,547,242
Profit reserves	63,680,167	60,569,523
- own shares fund	490,826	50,254
Retained earnings	5,446	-
General capital revaluation adjustment	11,791,560	11,791,560
Specific capital revaluation adjustment	4,954,069	-
Net profit for the period	3,190,321	3,316,312
TOTAL CAPITAL	112,588,969	104,588,667

Basic earnings per share at 31 December 2002 amounted to 822.15 tolar. The weighted average number of ordinary shares outstanding during the year ended 2002 was 7,638,662.

Due to a change in valuation principles under the new Slovenian Accounting Standards the Bank didn't maintain capital at the rate of the general price index. If the Bank had maintained capital at the rate equal to the general price index in the year 2002, profit before tax would amount to 4,962,735 thousand tolar. If instead of the general prices index the growth rate for euro in the year 2002 was used it would result in a profit before tax in the amount of 8,475,995 thousand tolar.

c) Distributable net profit for the year 2002

As at 31 December 2002 the Bank formed own shares fund in respect of NLB's shares held by its subsidiaries. Net profit for the year 2002 in the amount of 2,649,240 thousand tolars was transferred to other profit reserves, while the retained earnings and remaining part of net profit for the year 2002 in the amount of 3,195,767 thousand tolars represent distributable net profit for the year 2002.

38. OFF-BALANCE SHEET

a) Analysis by types of contingent liabilities and commitments

	IN THOUSANDS OF TOLARS			
	31.12.2002		31.12.2001	
	Tolars	Foreign currency	Tolars	Foreign currency
Short-term guarantees				
- financial	4,585,586	8,077,659	4,820,845	8,038,052
- service	9,026,461	3,791,494	10,474,672	11,722,935
Long-term guarantees				
- financial	9,840,392	77,298,989	9,695,175	34,610,534
- service	26,263,489	29,264,763	20,219,617	37,083,808
Letters of credit	-	2,129,751	1,751	1,922,704
Guaranteed and accepted bills	-	1,582,753	-	1,022,595
Commitments to extend credit	123,871,822	26,154,832	117,492,475	18,413,727
Derivative financial instruments	1,638,867	1,851,066	464,341	6,015,924
	175,226,617	150,151,307	163,168,876	118,830,279
Provisions	(5,407,766)	(5,006,723)	(3,595,671)	(5,490,277)
TOTAL	169,818,851	145,144,584	159,573,205	113,340,002

According to the Bank of Slovenia's methodology the total off-balance sheet items amounted to 1,410,118,309 thousand tolars. In accordance with the Decree on the Classification of Balance Sheet and Off-Balance Sheet Asset items of Banks and Savings Banks the total contingent liabilities with risk exposure amounted to 325,377,924 thousand tolars.

The total amount of all guarantees issued by the Bank to its subsidiaries amounted to 1,663,503 thousand tolars as at 31 December 2002. The total amount of letters of awareness written on behalf of the Bank's subsidiaries amounted to 37,193,684 thousand tolars as at 31 December 2002.

b) Analysis of derivative financial instruments

	IN THOUSANDS OF TOLARS			
	31.12.2002		31.12.2001	
	Short-term	Long-term	Short-term	Long-term
Forward contracts				
- for hedging	13,256,661	136,955	76,838,760	576,154
- for trading	5,380,771	2,089,031	4,233,401	-
Swaps with Bank of Slovenia				
- for hedging	640,080,705	-	166,079,535	-
Other swaps				
- for hedging	13,892,123	-	37,922,802	-
- for trading	14,636,709	-	-	-
Options				
- for hedging	4,067,703	9,600,789	31,167,750	
- for trading	-	-	221,409	-
Futures				
- for hedging	2,506,297	-	3,608,975	-
Forward contracts to buy or sell securities	4,297,946	1,572,298	3,763,532	-
	698,118,915	13,399,073	323,836,164	576,154
Provisions	(33,463)	-	(5,439)	-
TOTAL	698,085,452	13,399,073	323,830,725	576,154
	711,484,525		324,406,879	

Certain derivative financial instruments, while providing effective economic hedges under the risk management strategy of the Bank, do not qualify for hedge accounting under the specific accounting rules and are therefore treated as derivatives held for trading.

c) Assets pledged

	IN THOUSANDS OF TOLARS			
	Pledged assets		Liabilities	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Bonds of the Republic of Slovenia	-	331,097	-	250,000
TOTAL	-	331,097	-	250,000

39. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages assets totalling 113,319,955 thousand tolars (as at 31 December 2001: 114,873,153 thousands tolars) on behalf of third parties. Managed funds' assets are accounted for separately from those of the Bank. Income and expenses of these funds are for the account of the respective fund and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds.

40. FOREIGN BRANCHES

The Bank has a branch in Trieste, which total assets amounted to 23,220,696 thousand tolar as of 31 December 2002 and net profit for the year 2002 17,966 thousand tolar.

41. RELATED PARTY TRANSACTIONS

IN THOUSANDS OF TOLARS

	Balance at 31 December 2002	Interest rate	Repayments in the year 2002
Loans and advances to			
- Management board members	25,432	TOM + 1.3 %	2,447
- Supervisory board members	1,212		3,700
- other key managers	364,210	TOM + 1.3 %	68,488
- shareholders	56,105,457		
Deposits from			
- Management board members	3,005		
- Supervisory board members	7,567		
- other key managers	573,256		
- shareholders	2,282,598		
Loans received from			
- shareholders	6,445,552		
Subordinate loans received from:			
- shareholders	31,086,086		
	Year 2002		
Receipts			
- Management board members	134,079		
- Supervisory board members	7,927		
- other key managers	1,829,467		

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

IN THOUSANDS OF TOLARS

	2002	
	Carrying amount	Fair value
Placements with and loans to other banks	131,940,293	135,359,185
Loans and advances to customers	704,103,725	708,177,522
Investment securities, available for sale	455,843,854	455,879,666
Investment securities, held to maturity	24,067,011	21,900,907
Investments in capital	41,560,383	41,560,383
Securities held for trading	121,272,288	126,196,913
Derivative financial instruments	998.967	1.501.647
Deposits from banks	84,986,813	83,824,948
Borrowings from banks	125,406,207	124,562,751
Deposits from other customers	1,097,845,870	1,052,242,034
Borrowings from other customers	20,745,500	20,861,649
Subordinated liabilities	34,540,095	34,458,406
Derivative financial instruments	1.139.663	1.139.710

Placements with and loans to other bank

The estimated fair value of the deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of specific provisions for impairment. The Bank uses a discount rate adjustment approach. In other words the stream of contracted cash flows forms the basis for the present value computation, and the rates used to discount those cash flows reflect the uncertainties of cash flows.

Deposits

The fair value to the depository institution of a demand deposits on the expectations of the timing and amounts of withdrawals of the existing balance, the level of prevailing interest rates with similar terms, the costs of servicing the deposit and the Bank's own credit risk. This is essentially important for core demand deposits, which have a positive fair value.

The estimated fair value of other deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities held to maturity

The fair value of the bonds of the Republic of Slovenia for paid foreign currency deposits is calculated using discounted cash flows techniques. Due to their lower contractual interest rate against market interest rate of comparable market bonds the fair value of these bonds is lower than the carrying value. These bonds represent first-class securities and according to the Bank's positive intention to hold them to maturity they will be, irrespective of their momentary fair value, settled at maturity at their carrying value.

The fair value of other securities held to maturity is based on their quoted market price or calculated by using discounted cash flows techniques and it is not lower than the carrying value of these securities.

43. SEGMENTAL ANALYSIS

IN THOUSANDS OF TOLARS

Year ended 31 December 2002	Retail network	Corporate business	Financial markets	Other (unallocated)	The Bank
Net interest income	12,013,395	9,066,738	5,298,676	9,316,738	35,695,547
Income from capital and other investments	610	-	11,281,537	-	11,282,147
Net fees and commissions	13,002,787	1,763,336	4,407,804	1,742,587	20,916,514
Net profit (loss) from financial transactions	1,305,000	-	(3,466,000)	(218)	(2,161,218)
Other operating income	299,046	1,821	87,108	2,751,247	3,139,222
Employee costs	(13,877,476)	(1,586,620)	(2,644,404)	(5,034,742)	(23,143,242)
Other expenses	(8,533,425)	(589,595)	(6,225,155)	(7,601,499)	(22,949,674)
Other operating expenses	(82,463)	(102,020)	(1,032,020)	(22,323)	(1,238,826)
Losses on loans and advances less recoveries	(3,310)	(4,715,122)	(4,377,073)	(1,087,555)	(10,183,060)
SEGMENT RESULT	4,124,164	3,838,538	3,330,473	64,235	11,357,410
Provisions for general banking risks					1,200,000
Operating profit					12,557,410
Extraordinary profit					24,797
PROFIT BEFORE TAX					12,582,207
Taxes					(6,302,074)
NET PROFIT FOR THE YEAR					6,280,133
TOTAL ASSETS	430,212,909	280,656,029	812,944,500	95,351,901	1,619,165,339
TOTAL LIABILITIES	955,388,634	45,347,565	460,520,165	45,320,006	1,506,576,370
EQUITY	-	-	4,954,069	107,634,900	112,588,969

The Bank's organisational structure is from the beginning of the year 2003 based on 3 major business segments (value generation centres). This business segments are used for segment reporting for the year 2002:

- 1. Financial markets**, including: treasury, investment banking and capital investments,
- 2. Corporate business**, including: large companies and state companies (public sector),
- 3. Retail network**, including: payment and credit cards, loans to and deposits from individual clients, balances on their accounts etc.

Other operations comprise support centre (information technology and administration) and management centre, none of which constitutes a separately reportable segment.

Inter-segment transfers are determined under normal commercial terms and conditions. Segment balance sheet items comprise operating assets and liabilities of reportable segments.

44. BALANCE SHEET MATURITY ANALYSIS

IN THOUSANDS OF TOLARS

Year ended 31 December 2002	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
Cash and balances with the Central Bank	55,350,465	-	-	-	-	55,350,465
Placements with, and loans to, other banks	80,597,689	27,487,279	10,964,436	12,669,923	220,966	131,940,293
Loans and advances to customers	47,104,983	68,088,209	209,516,428	280,240,102	99,154,003	704,103,725
Debt securities not held for trading	93,921,219	141,764,798	138,074,625	47,453,579	58,696,644	479,910,865
Securities held for trading	113,830,753	-	7,441,535	-	-	121,272,288
Investments in subsidiaries, associated and jointly controlled companies	-	-	-	10,084,278	30,161,977	40,246,255
Investments in other companies	-	-	903,016	411,112	-	1,314,128
Intangible assets	-	-	-	2,494,522	8,785,142	11,279,664
Property and equipment	-	-	-	12,204,836	29,012,935	41,217,771
Other assets	16,218,176	-	2,064,122	1,154,256	-	19,436,554
Accrued income and deferred expenses	1,407,790	2,124,644	9,560,897	-	-	13,093,331
TOTAL ASSETS	408,431,075	239,464,930	378,525,059	366,712,608	226,031,667	1,619,165,339
Deposits and borrowings from banks	60,878,329	13,140,989	42,653,060	87,608,982	6,111,659	210,393,019
Deposits and borrowings from other customers	504,942,986	141,515,799	375,938,680	91,041,155	5,152,750	1,118,591,370
Debt securities	2,169	1,396	194,252	71,577,290	4,579,524	76,354,631
Other liabilities	16,127,754	108,723	2,420,022	214,109	-	18,870,608
Accruals and deferred income	2,682,300	2,674,584	12,041,729	409,212	-	17,807,825
Provisions for liabilities and charges	1,729,177	1,163,438	2,548,497	19,866,341	2,482,753	27,790,206
Provisions for general banking risks	-	-	-	-	2,228,616	2,228,616
Subordinated liabilities	-	-	-	13,816,038	20,724,057	34,540,095
Subscribed capital	-	-	-	-	15,364,030	15,364,030
Equity reserves	-	-	-	-	13,603,376	13,603,376
Profit reserves	-	-	-	-	63,680,167	63,680,167
Capital revaluation adjustment	-	-	-	-	16,745,629	16,745,629
Retained earnings	-	-	-	-	5,446	5,446
Net profit for the period	-	-	2,548,123	-	642,198	3,190,321
TOTAL LIABILITIES	586,362,715	158,604,929	438,344,363	284,533,127	151,320,205	1,619,165,339
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	(177,931,640)	80,860,001	(59,819,304)	82,179,481	74,711,462	-

45. BALANCE SHEET ANALYSIS BY CURRENCY

IN THOUSANDS OF TOLARS

As at 31 December 2002	Tolars	Tolars with foreign currency clause	USD	EUR	Other	Total
Cash and balances with the Central Bank	49,958,602	-	613,394	3,446,509	1,331,960	55,350,465
Placements with, and loans to, other banks	1,092,252	290,246	15,364,191	97,941,779	17,251,825	131,940,293
Loans and advances to customers	473,450,057	10,960,585	24,160,329	187,840,605	7,692,149	704,103,725
Debt securities not held for trading	277,576,114	4,498,778	11,619,180	186,216,793	-	479,910,865
Securities held for trading	80,267,041	8,631,554	11,739,761	20,284,582	349,350	121,272,288
Investments in subsidiaries, associated and jointly controlled companies	26,804,111	-	-	10,098,561	3,343,583	40,246,255
Investments in other companies	881,797	-	274,901	157,430	-	1,314,128
Intangible assets	11,221,062	26,166	-	32,436	-	11,279,664
Property and equipment	41,186,074	-	-	31,697	-	41,217,771
Other assets	16,713,142	53,743	1,239,430	1,406,247	23,992	19,436,554
Accrued income and deferred expenses	12,127,830	268,197	15,269	659,963	22,072	13,093,331
TOTAL ASSETS	991,278,082	24,729,269	65,026,455	508,116,602	30,014,931	1,619,165,339
Deposits and borrowings from banks	33,555,446	-	10,074,438	161,974,918	4,788,217	210,393,019
Deposits and borrowings from other customers	730,766,481	6,610,674	51,211,464	311,364,942	18,637,809	1,118,591,370
Debt securities	64,564,203	11,781,364	9,064	-	-	76,354,631
Other liabilities	15,131,944	204,395	1,637,410	1,722,594	174,265	18,870,608
Accruals and deferred income	14,022,622	237,147	754,428	2,732,606	61,022	17,807,825
Provisions for liabilities and charges	14,138,742	194,374	1,748,246	10,020,475	1,688,369	27,790,206
Provisions for general banking risks	2,228,616	-	-	-	-	2,228,616
Subordinated liabilities	-	-	-	34,540,095	-	34,540,095
Subscribed capital	15,364,030	-	-	-	-	15,364,030
Equity reserves	13,603,376	-	-	-	-	13,603,376
Profit reserves	63,680,167	-	-	-	-	63,680,167
Capital revaluation adjustment	16,745,629	-	-	-	-	16,745,629
Retained earnings	5,446	-	-	-	-	5,446
Net profit for the period	3,190,321	-	-	-	-	3,190,321
TOTAL LIABILITIES	986,997,023	19,027,954	65,435,050	522,355,630	25,349,682	1,619,165,339
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	4,281,059	5,701,315	(408,595)	(14,239,028)	4,665,249	-
Derivative financial instruments	73,487	-	(8,339,881)	13,874,956	(5,209,279)	399,283

46. BALANCE SHEET ANALYSIS BY INTEREST RATE EXPOSURE

The interest rate risk exposure analysis of the Bank's balance sheet as at 31 December 2002:

	IN THOUSANDS OF TOLARS						
	Total	Non interest bearing	Interest bearing	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	Over 1 Year
ASSETS							
Cash and balances with the Central Bank	55,350,465	24,615,997	30,734,468	30,734,468	-	-	-
Placement with, and loans to, other banks	131,940,293	-	131,940,293	80,597,689	27,593,266	23,433,034	316,304
Loans and advances to customers	704,103,725	-	704,103,725	423,689,173	37,874,548	233,662,982	8,877,022
Debt securities not held for trading	479,910,865	-	479,910,865	194,977,707	142,823,994	134,551,707	7,557,457
Securities held for trading	121,272,288	14,194,676	107,077,612	99,636,077	-	7,441,535	-
Investments in subsidiaries, associated and jointly controlled companies	40,246,255	40,246,255	-	-	-	-	-
Investments in other companies	1,314,128	1,314,128	-	-	-	-	-
Intangible assets	11,279,664	11,279,664	-	-	-	-	-
Property and equipment	41,217,771	41,217,771	-	-	-	-	-
Other assets	19,436,554	19,249,625	186,929	186,929	-	-	-
Accrued income and deferred expenses	13,093,331	13,093,331	-	-	-	-	-
TOTAL ASSETS	1,619,165,339	165,211,447	1,453,953,892	829,822,043	208,291,808	399,089,258	16,750,783
LIABILITIES							
Deposits and borrowings from banks	210,393,019	-	210,393,019	63,904,942	11,565,703	131,854,426	3,067,948
Deposits and borrowings from other customers	1,118,591,370	-	1,118,591,370	906,918,065	120,995,806	86,603,871	4,073,628
Debt securities	76,354,631	-	76,354,631	20,282,453	13,347	10,707	56,048,124
Other liabilities	18,870,608	18,870,608	-	-	-	-	-
Accruals and deferred income	17,807,825	17,807,825	-	-	-	-	-
Provisions for liabilities and charges	27,790,206	27,790,206	-	-	-	-	-
Provisions for general banking risks	2,228,616	2,228,616	-	-	-	-	-
Subordinated liabilities	34,540,095	-	34,540,095	-	-	34,540,095	-
Subscribed capital	15,364,030	15,364,030	-	-	-	-	-
Equity reserves	13,603,376	13,603,376	-	-	-	-	-
Profit reserves	63,680,167	63,680,167	-	-	-	-	-
Capital revaluation adjustment	16,745,629	16,745,629	-	-	-	-	-
Retained earnings	5,446	5,446	-	-	-	-	-
Net profit for the period	3,190,321	3,190,321	-	-	-	-	-
TOTAL LIABILITIES	1,619,165,339	179,286,224	1,439,879,115	991,105,460	132,574,856	253,009,099	63,189,700

47. EFFECTIVE INTEREST RATES

%

	2000		2001	
	In tolar	In Foreign currency	In tolar	In Foreign currency
ASSETS				
Cash and balances with the Central Bank	0,96	-	0,83	-
Placements with, and loans to, other banks	6,80	3,00	9,06	4,98
Loans and advances to customers	12,67	4,91	13,34	6,31
Debt securities not held for trading	11,06	3,18	13,00	4,30
Securities held for trading	8,86	4,43	5,99	5,60
Other assets	0,61	-	0,72	-
TOTAL ASSETS	10,51	3,77	11,33	5,13
LIABILITIES				
Deposits from banks	8,65	2,58	10,56	3,96
Borrowings from banks	5,88	3,88	7,05	4,39
Deposits from other customers	7,41	1,84	8,19	3,00
Borrowings from other customers	10,73	4,58	12,39	5,66
Debt securities	11,28	0,10	12,95	2,57
Other liabilities	0,32	-	0,36	-
Subordinated liabilities	-	5,40	-	7,09
TOTAL LIABILITIES	6,30	2,39	6,83	3,53

Effective interest rates are calculated on the basis of daily averages for each interest bearing balance sheet item (separately for tolar and foreign currencies). Interest income from loans to banks and loans to other customers are increased by commitment fees and commissions related to these loans.

Nova Ljubljanska banka d.d., Ljubljana

**Audited Consolidated Financial Statements
for the NLB Group according to
International Financial Reporting Standards**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management are responsible for preparing financial statements for each financial year that present fairly the state of affairs of the Bank and its subsidiaries as at the end of the financial year and of the profit or loss for that period.

The management confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2002. The management also confirm that applicable International Financial Reporting Standards have been followed and that the financial statements have been prepared on the going concern basis.

The management are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and to prevent and detect fraud and other irregularities.

Management Board



Borut Stanič
Member of the
Management Board



Matej Narat
Member of the
Management Board



Pierre Van Keirsbilck
Member of the
Management Board



Andrej Hazabent
Member of the
Management Board



Marko Voljč
President of the
Management Board
& CEO

REPORT OF THE AUDITOR TO THE SHAREHOLDERS OF NOVA LJUBLJANSKA BANKA d.d., LJUBLJANA

We have audited the accompanying consolidated balance sheet of Nova Ljubljanska banka d.d. and its subsidiaries ("the Group") as at 31 December 2001 and the related consolidated statements of income, changes in equity and cash flows for the year then ended (collectively "the consolidated financial statements"). These consolidated financial statements are the responsibility of the management. 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 as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2001, and the results of operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Committee.

Ljubljana, 17 April 2003

KPMG SLOVENIJA d.o.o.
Management, consulting in revizija,
Ljubljana



John Varsanyi
Partner

KPMG Slovenija, d.o.o.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

IN MILLIONS OF TOLARS

	Note	Year 2002	Year 2001
Interest and similar income	7	139,677	126,462
Interest expense and similar charges	7	(79,851)	(73,566)
NET INTEREST INCOME		59,826	52,896
Fees and commissions income	8	32,098	22,179
Fees and commissions expense	8	(4,576)	(3,661)
NET FEES AND COMMISSIONS		27,522	18,518
Gains arising from securities (net)		5,535	3,113
Gains arising from dealing in foreign currencies (net)		2,500	2,667
Foreign exchange losses (net)		(2,240)	(161)
Foreign exchange gain from disposal of subsidiary	6	3,965	-
Other operating income	9	6,607	6,795
OPERATING INCOME		103,715	83,828
Impairment charge for bad and doubtful debts	10	(14,975)	(10,264)
General administrative expenses	11	(54,691)	(43,563)
Other operating expenses	12	(10,667)	(8,299)
PROFIT FROM OPERATIONS		23,382	21,702
Share of profits of associated companies	21	1,338	1,858
PROFIT BEFORE TAX		24,720	23,560
Tax	13	(8,622)	(8,727)
PROFIT AFTER TAX		16,098	14,833
Minority interest	37	(1,895)	(1,368)
NET PROFIT FOR THE PERIOD		14,203	13,465

Basic and diluted earnings per share (expressed in tolar per share)	14	1,859	1,753
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The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002

IN MILLIONS OF TOLARS

	Note	Year 2002	Year 2001
ASSETS			
Cash and balances with the Central Bank	15	68,106	98,728
Placements with, and loans to, other banks	16	152,465	144,146
Securities held for trading	17	142,104	128,758
Loans and advances to customers	18	899,904	818,351
Investment securities	19	594,895	427,394
Investment property	20	5,230	5,991
Investments in associated companies	21	7,996	7,352
Other assets, including tax assets	23, 24	13,619	15,877
Accrued income and deferred expenses	25	14,578	9,195
Property and equipment	26	61,495	61,034
Intangible assets	27	11,581	5,479
TOTAL ASSETS		1,971,973	1,722,305
LIABILITIES			
Deposits from banks	28	114,512	108,329
Borrowings from banks	29	210,331	203,001
Deposits from other customers	30	1,260,292	1,110,060
Borrowings from other customers	31	59,511	60,468
Debt securities	32	76,774	22,650
Other liabilities	33	25,197	26,064
Accruals and deferred income	34	20,944	18,712
Provisions for liabilities and charges	35	23,179	20,883
Subordinated liabilities	36	36,000	14,703
TOTAL LIABILITIES		1,826,740	1,584,870
Minority interest	37	27,528	27,745
SHAREHOLDERS' EQUITY			
Share capital	38	15,295	15,255
Paid in equity surplus		12,546	12,114
Retained earnings		61,633	52,557
Reserves	39	28,231	29,764
TOTAL SHAREHOLDERS' EQUITY		117,705	109,690
TOTAL EQUITY AND LIABILITIES		1,971,973	1,722,305

The accompanying notes form an integral part of these consolidated financial statements.

The Management Board authorised for issue the financial statements and notes to the financial statements.



Borut Stanič
Member of the
Management Board




Matej Narat
Member of the
Management Board



Pierre Van Keirsbilck
Member of the
Management Board



Andrej Hazabent
Member of the
Management Board



Marko Voljč
President of the
Management Board
& CEO

Ljubljana, 17 April 2003

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED
31 DECEMBER 2002**

IN MILLIONS OF TOLARS

	Share Capital ¹	Reserves ²	Paid in Equity Surplus	Retained Earnings	Total Equity
Balance at 1 January 2001	13,800	25,790	-	38,938	78,528
Exchange differences on opening net assets of subsidiaries and associates	-	85	-	66	151
Additional provisions	-	-	-	(3,261)	(3,261)
Effect of adopting IAS 39	-	-	-	2,435	2,435
Effect of adopting IAS 40	-	(1,955)	-	1,955	-
Profit for the year	-	-	-	13,465	13,465
Dividends paid	-	-	-	(2,046)	(2,046)
Merger of subsidiary banks	1,554	-	12,651	569	14,774
Crossholding	(101)	-	(540)	-	(641)
Negative goodwill released into reserves	-	-	-	2,178	2,178
Fair value adjustment	-	-	-	762	762
Revaluation adjustment					
-property and equipment	-	2,703	-	-	2,703
-investments	-	844	-	-	844
Transfer to general banking reserve	-	2,297	-	(2,297)	-
Other	-	-	-	(209)	(209)
Purchase of own shares	(10)	-	-	(42)	(52)
Sale of own shares	12	-	3	44	59
Balance at 31 December 2001	15,255	29,764	12,114	52,557	109,690
Balance at 1 January 2002	15,255	29,764	12,114	52,557	109,690
Foreign exchange differences on opening net assets of subsidiaries and associates	-	84	-	230	314
Profit for the year	-	-	-	14,203	14,203
Dividends paid	-	-	-	(3,276)	(3,276)
Transfer to general banking reserve	-	989	-	(989)	-
Transfer of foreign exchange differences of investment in LBS Bank to income	-	(3,965)	-	-	(3,965)
Transfer to legal reserve	-	1,359	-	(1,359)	-
Sale of own shares	40	-	432	42	514
Other	-	-	-	225	225
Balance at 31 December 2002	15,295	28,231	12,546	61,633	117,705

Notes:

¹ See note 38² See note 39

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

IN MILLIONS OF TOLARS

	Note	Year 2002	Year 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and commission receipts		151,576	116,031
Interest and commission payments		(78,218)	(58,740)
Dividend receipts	9	270	376
Recoveries on loans previously written off		1,335	265
Cash payments to employees and suppliers		(55,720)	(43,455)
Trading gains		7,208	5,036
Other income		4,001	5,092
Taxation paid		(8,676)	(7,273)
Cash flows from operating profit before changes in operating assets and liabilities		21,776	17,332
(Increase)/decrease in operating assets:			
Placements with, and loans to, other banks		(7,430)	223
Loans and advances to customers		(86,685)	(63,813)
Short-term securities		(131,418)	(1,198)
Other assets		3,680	(4,395)
Increase/(decrease) in operating liabilities:			
Deposits from banks		14,646	25,408
Deposits from other customers		139,772	230,699
Other liabilities		(4,835)	5,843
NET CASH FROM OPERATING ACTIVITIES		(50,494)	210,099
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of non - dealing investments		16,871	31,713
Purchase of investments		(2,202)	(11,062)
Proceeds from sales of property, equipment and intangibles		1,264	1,719
Purchase of property, equipment and intangibles		(16,564)	(12,685)
Acquisition of subsidiary undertaking		(69)	98,111
Disposal of subsidiary		2,496	225
NET CASH FROM INVESTING ACTIVITIES		1,796	108,021
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase/(decrease) in borrowings		50,150	(51,201)
Proceeds from sales of own shares		335	8
Subordinated debt received		20,418	-
Dividends paid		(4,058)	(2,887)
NET CASH FROM FINANCING ACTIVITIES		66,845	(54,080)
Effect of exchange rate changes on cash and cash equivalents		8,666	15,190
NET INCREASE IN CASH AND CASH EQUIVALENTS		26,813	279,230
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		566,142	253,458
Increase in cash and cash equivalents following the acquisition of subsidiaries		-	33,454
CASH AND CASH EQUIVALENTS AT END OF PERIOD		592,955	566,142

The accompanying notes form an integral part of these consolidated financial statements.

IN MILLIONS OF TOLARS

	2002	2001
Cash and cash equivalents comprise:		
Cash and balances with the Central Bank	68,106	98,728
Placements with, and loans to, other banks maturing within 3 months	120,853	114,488
Investment securities maturing within 3 months	273,296	233,493
Securities held for trading maturing within 3 months	130,700	119,433
TOTAL	592,955	566,142

1. GENERAL INFORMATION

Nova Ljubljanska banka ("The Bank" / "NLB") is incorporated in Slovenia as a share company providing universal banking services. The majority shareholders of Nova Ljubljanska banka d.d. are the Republic of Slovenia, holding 35.71% of the shares and KBC Bank N.V., Brussels ("KBC Bank"), holding 34% of the shares.

The address of its registered office is: Nova Ljubljanska banka d.d., Ljubljana, Trg republike 2, Ljubljana.

The increase of the general price index for the year 2002 was 7.2% (year 2001: 7%). The exchange rate changed from 221.4 tolar to the euro at 31 December 2001 to 230.3 tolar to the euro at 31 December 2002, and from 250.9 tolar to the US dollar at 31 December 2001 to 221.1 tolar to the US dollar at 31 December 2002.

All amounts are expressed in million of tolar unless otherwise specified.

Certain items relating to 2001 have been reclassified to ensure comparability of treatment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the financial statements are set out below:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the Standing Interpretations Committee of the IASB.

b) Basis of presentation of financial statements

For the purposes of these financial statements, the statutory financial statements of the Bank and its subsidiaries (together: "the Group") have been adjusted, where necessary, for the purpose of fair presentation in accordance with IFRS.

Assets and liabilities are categorised into short-term (up to one year) and long-term (more than one year) groups concerning their remaining maturity.

c) Consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more

than half of the voting rights or otherwise has the power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Separate disclosure is made of minority interest (see Note 37).

A listing of the Bank's subsidiaries is set out in Note 45.

d) Associated undertakings

Investments in associated undertakings are accounted for using the equity method of accounting. These are undertakings in which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control. Provisions for impairment losses are recorded for long-term impairment in value.

Equity accounting involves recognizing in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on acquisition.

In respect of associates, negative goodwill is included in the carrying amount of investment in an associate over a period of five years.

A listing of the Group's principal associated undertakings is set out in Note 21.

e) Jointly controlled companies

Jointly controlled companies are those enterprises over whose activities the Group has jointly control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the enterprises assets, liabilities, revenues and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

f) Goodwill and Negative Goodwill

On acquisition of a subsidiary, the Bank calculates the difference between the fair value of the assets and liabilities acquired and the fair value of the consideration given. Where the consideration given exceeds the net assets acquired, goodwill arises; this is amortised to the income statement over its estimated useful life of five years. The car

rying value of goodwill is reviewed annually and written down for permanent impairment where considered necessary.

Negative goodwill arising on acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is amortised to the income statement over a period of five years. However in the case of significant acquisitions made by the Group to expand its product or geographical market coverage, such negative goodwill is amortised to the income statement over a period not exceeding eight years.

g) Foreign currencies

Assets and liabilities of foreign entities denominated in foreign currencies are translated into tolar at the mid-market exchange rate as at the last day of the accounting period. Income and expenses of the foreign entities are translated at average rate for the period. Exchange differences arising from translating income and expenses at average rate for the period and assets and liabilities at the closing rate are taken directly into reserves. Gains and losses resulting from the translation of the opening net assets of foreign subsidiaries and associated companies are taken directly to reserves.

Income and expenses arising in foreign currencies are translated at the official rates of exchange as at the transaction date.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as net gains or losses from dealing in foreign currencies.

h) Interest and discount income and expense

Interest income and expense are recognised on an accrual basis for all loans other than impaired loans. Recognition of interest income on accrual basis ceases when the payment of interest or principal is in doubt. Interest income includes coupons earned on fixed income securities and accrued discounts on discounted securities.

i) Fees and commission income

Fees and commissions consist mainly of fees received from payment and from the managing of funds on behalf of legal entities and citizens, together with commissions from loans and guarantees.

Fees receivable that represent a return for services provided are credited to income when the related service is performed.

j) Financial instruments

i) Classification

Trading instruments include investments that the Group principally holds for the purpose of short-term profit taking.

Originated loans and receivables are loans and receivables created by the Group providing money directly to a debtor, other than those created with the intention of short-term profit taking. Originated loans and receivables are stated in the balance sheet at the amount of principal outstanding, less any provision for unrecoverable amounts.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not classified in any other previous category.

ii) Measurement and Recognition

All regular purchases and sales are recognised using trade date accounting. All trading instruments and available-for-sale assets are measured at fair value, except where an instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, is stated at cost.

iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading and available-for-sale assets are recognised in the income statement.

v) Derivative financial instruments and hedging

Derivative financial instruments, including forward and futures contracts, swaps and options, are initially recognized on balance sheet at their cost, which is the fair value of related consideration given or received. Derivative financial instruments are subsequently remeasured at their fair value. Fair values are obtained from quoted market

price, discounted cash flow models or pricing models, as appropriate. All derivatives are carried at their fair value in assets when favourable to the Bank, and in liabilities when unfavourable to the Bank.

Changes in fair value of derivative financial instruments held for trading are included in net trading income.

The Group designates certain derivative financial instruments as a hedge of the fair value of recognized asset or liability. Hedge accounting is used when certain criteria are met:

- formal documentation of hedge relationship,
- the hedge must be expected to be highly effective at inception and ongoing,
- hedge effectiveness can be reliably measured on an ongoing basis.

Changes in fair value of derivative financial instruments that qualify as fair value hedge and that prove to be highly effective in relation to hedged risk, are recorded in the income statement as is the corresponding change in fair value of the hedged item.

Gains and losses on trading derivative instruments, together with any associated hedging thereof used in dealing activities, are included in net losses/gains arising from dealing in foreign currencies as they arise.

Certain derivative financial instruments, while providing effective economic hedges, do not qualify for hedge accounting under the specific accounting rules and are therefore treated as derivatives held for trading.

The Group does not engage in cash flow hedge.

k) Provisions for impairment of originated loans and receivables

A specific credit risk provision for loan impairment is established on those loans that have been individually reviewed and specifically identified by the management as doubtful including those existing losses that, although not yet specifically identified, are known from experience to be present in the lending portfolio as at balance sheet date. In determining the level of the provisions required, the management considers numerous factors, including (but not limited to) domestic economic conditions, the composition of the loan portfolio, and prior bad debt experience.

Pursuant to the Decree on the Supervision of Banks and Savings Banks on a Consolidated Basis and additional instructions from the Bank of Slovenia, and taking into account the criteria based on the specific regulations of the Bank of Slovenia, the NLB set aside additional specific provisions in the consolidated financial statements for the balance sheet and off-balance sheet asset items of its subsidiaries.

l) Accounting for leases - where a Group company is the lessee

Leases entered into by the Group are all operating leases. Payments made under operating leases are charged to the

income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

m) Accounting for leases - where a Group company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance leasing transactions is apportioned systematically over the primary lease period, reflecting a constant periodic return on the lessor's net investment outstanding.

n) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

o) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, and the counterparty liability is included in deposits from banks or customers as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreements.

p) Property and equipment

All property and equipment is initially recorded at cost. The Group assesses each year whether there are indications that assets may be impaired. If any such indication exists, the Group estimates the recoverable amounts of assets. Recoverable amounts are the higher of net selling price and value in use. If value in use exceeds the carrying value, the assets are not impaired. If market prices are increased significantly the Group considers the need for assets revaluation.

Depreciation is provided on a straight-line basis at rates designed to write off cost or valuation of buildings and equipment over their estimated useful lives. The following are approximations of the annual rates used:

Notes to the Consolidated Financial Statements

	Year 2002		Year 2001	
in %				
Buildings	2	- 5	2	- 10
Leasehold improvements	20		20	
Computers	14.3	- 50	20	- 50
Furniture and equipment	10	- 33.3	10	- 33.3
Motor vehicles	20	- 40	20	- 40

Assets in the course of transfer or construction are not depreciated until they are brought into use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement when the expenditure is incurred and renewals capitalised.

q) Intangible assets

Intangible assets that relate solely to software licences are stated at cost, less accumulated amortisation and impairment losses.

Amortisation is provided on a straight-line basis at rates designed to write off cost of software over its estimated useful life. The current system software and the new information technology system are amortised over a period of ten years and other software over a period of five years.

Assets in the course of transfer or construction/implementation are not amortised until they are brought into use.

r) Investment property

Investment property is stated at fair value determined by an independent registered valuer. Fair value is based on current market prices. Any gain or loss arising from a change in fair value is recognised in the income statement.

s) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank, placement with and loans to other banks, and investment and dealing securities.

t) Provisions

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

u) Reserve for general banking risks

Reserve for general banking risks including future losses and other unforeseeable risks are established for the purpose of protecting against risks arising from the Group's overall operations and are disclosed as appropriations of retained earnings.

v) Own shares

Where the NLB or its subsidiaries purchase NLB's share capital or obtains rights to purchase its share capital, the consideration paid is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are charged or credited to paid-in equity surplus.

w) Taxation

Slovenian corporation tax is provided on taxable profits at the rate of 25% (2001: 25%). Foreign taxes are provided for in accordance with local tax laws and accounting principles.

In 1998 a new tax was introduced on Slovenian banks. In 1998 this was calculated as a 2% levy on certain balance sheet items. This rate was increased to 2.5% in 1999 and to final 3% in 2000. Therefore in 2002 the balance sheet tax is calculated at the rate of 3%. According to Slovene legislation the maximum balance sheet tax is limited to 50% of pre-tax profit. Where the 3% levy exceeds 50% of profits, the lower tax charge is payable.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates currently enforced are used to determine deferred income tax.

x) Managed funds

The Group manages a significant amount of assets on behalf of legal entities and individuals. A fee is charged for this service. These assets are not shown in the consolidated balance sheet.

y) Pensions

In 2002 the Bank and most of its subsidiaries contributed to the State Pension Schemes (8.85% on gross salaries). The Bank and its Slovene subsidiaries make contributions to a defined contribution plan according to Slovene legislation.

3. RISK MANAGEMENT POLICIES OF THE GROUP

The strategy of the risk management system in the Group is to maintain stable performance in the future. The Risk Management Department has an independent and centralised role in controlling risks.

The Bank draws up credit and market risks policies and strategies working closely with its subsidiaries. The Bank therefore has a centralised role in controlling the different risks regarding the data structure, methodologies adopted, reporting, and the limits placed within the decision-making process.

The Group has an internal risk management model. The most important roles of the model are to decrease information asymmetry (between the Bank and its environment), and direct the process towards estimating the future ("marked to future") and not only the present. The most important tools and methods used by the internal risk management model are: diversification, internal credit grading system standard (for corporates, banks, countries etc.), migration matrices with internal credit rating system, collaterals, internal cover ratio provisions/bad debts, etc. The use of risk management tools has a great impact on asset quality, structural liquidity, performance, ratios and early warning signals and they minimise the Group's exposure to all types of risks.

a) Credit Risk Management

The Group's Risk Management Department is responsible for assessing credit risk for the Group as a whole. Credit risk has three aspects: specific risk for each counterparty, portfolio risk and country risk.

The main goal of Group risk management is to maintain the highest possible asset quality. Asset quality ratios are consequently mentioned in all other Group risk management policies and measures. In structural liquidity policy, asset liquidity is defined as a key factor. Cash inflow from the maturity of existing assets is the first source of liquid funds.

The credit portfolio includes loans (to corporates, retail and the public sector), exposures to other banks and financial institutions, and corporate bonds and other banking products, (such as guarantees, derivative instruments, etc).

The Group complies with all Central Bank risk management requirements, but it is more important to comply with the standards of the Group's internal credit risk system, which is oriented towards ex ante credit risk assessment. Migration matrices for previous years show that the assets qualities of the Group are relatively stable.

The Group's loan portfolio breakdown by industries reflects its diversification.

Country risk is managed using maximum risk levels for investments in different countries, including emerging-market limits. Assessment of the risk level of a given country is carried out by reviewing the country's major macroeconomic data, its political situation and the rating attributed to the countries by major international specialised companies. Appropriate provision is set aside for these risks on the basis of management decisions.

b) Foreign Exchange Risks

The foreign exchange exposure can be seen as the result of the macroeconomic environment and the Group's dominant role in the market (savings in foreign currencies, export financing, intervening in capital flows, borrowing abroad and financing corporate in domestic currency). Open foreign exchange positions (primarily EUR, USD, AUD, SEK, CHF) represent a constant source of foreign exchange risk.

In 1997 the Bank started monitoring foreign exchange risks using Value-at-Risk (VaR) methodology, observing the Basle Committee amendment criteria for internal approach to measuring foreign exchange exposure capital requirement. After an assessment of technology and methods, it was decided to implement a VaR model based on historical simulation. The approach provides for a daily revaluation of the Bank's foreign exchange portfolio on the basis of the historical trend in market prices and their correlation over the past year. The resulting distribution of profits and losses is used to determine the possible losses in the value of the foreign exchange portfolio as a result of market changes. VaR methodology is therefore one of the most important tools in an active management of open positions.

The foreign exchange risk measurement model has following characteristics (VaR parameters):

- VaR is calculated daily, based on the end of the previous working day's exposure (whole trading and banking book);
- the holding period is 10 days;
- the period of observation is 250 working days;
- the level of confidence is 99%;
- the historical series is updated daily.

The internal model is used strictly for internal purposes. Publicly the Group follows all central bank regulations.

c) Interest Rate Risks

The measurement of interest rate risk exposure is based on the following:

- within the gap analysis, assets, liabilities, and off-balance sheet instruments are categorised by interest rate sensitivity according to their maturities and/or repricing character-

Notes to the Consolidated Financial Statements

istics; consequently, data is sorted according to contractually conditioned parameters, i.e. type of interest rate (fixed vs. variable), rate index, or currencies;

- an assessment of interest rate exposure based on the specific characteristics of different interest rates prevailing in different balance sheet segments;
- duration of the bond portfolio.

d) Structural Liquidity

The Group's liquidity situation cannot be viewed solely from the liability side as a set of activities for meeting required cash outflows, but also as the availability of liquid assets at a fair price that at all times assures immediate fulfilment of matured financial obligations towards its clients. At the operational level it reflects the ability either to liquidate positions or to acquire additional financing sources at the appropriate price. With respect to solvency, the liquidity risk does not necessarily relate directly to financial loss or writeoffs but is mostly a consequence of unbalanced cash flows.

e) Securities

At the level of the Group, the major part of the portfolio consists of domestic (Government, banks) and foreign bonds, eurobonds and Central Bank certificates of deposit. Bond investments abroad are limited to investment grade countries.

The measurement and management of market risks of the portfolio are based on VaR and duration methodologies, limits and a stop-loss system. Both macro and micro hedges of those risks are used.

4. CHANGE IN THE SCOPE OF CONSOLIDATION

At the end of April 2002 LB Propria d.o.o., Ljubljana, the subsidiary of LB Hipo d.o.o., Ljubljana acquired the majority interest in company Golf Arboretum d.o.o., Volčji Potok, which became a new subsidiary of the NLB Group. For the year 2001 Golf Arboretum d.o.o, Volčji Potok was presented in consolidated financial statements as an associate.

In November 2002 Slovenska izvozna družba d.d., Ljubljana additionally paid in capital of LB Factors d.d., Ljubljana a subsidiary of the NLB Group. Due to the contractually agreed sharing of control over economic activities of the company, LB Factors became a jointly controlled company. In the consolidated income statement for the year 2002 LB Factors was treated as wholly owned subsidiary, while in consolidated balance sheet it was regarded as a jointly controlled company.

LHB Internationale Handelsbank AG, Frankfurt Group and Tutunska banka AD, Skopje were consolidated for the first time at the end of the year 2001. As fully consolidated subsidiaries they were included in the balance sheet for the year

2001, while they were included in the income statement as associates accounted for using the equity method. The consolidated income statement for the year 2002 for the first time includes LHB Internationale Handelsbank AG, Frankfurt Group and Tutunska banka AD, Skopje as fully consolidated subsidiaries.

ICJ d.o.o., Domžale, founded on 10 October 1999 for providing real estate operation, engineering and consulting, was included for the first time for the year 2002 in the consolidated income statement as an associated company by using the equity method of accounting.

5. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

From the balance sheet date until the completion of this report, no such event has occurred that would require the restatement of the completed consolidated financial statements or any additional disclosure.

6. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

In 2002 NLB sold its subsidiary LBS Bank, New York (LBS) to KBC Bank N.V. (KBC). LBS is included in the consolidated income statement for the period from 1 January to 31 August 2002. LBS Bank, with the net assets amounted to 4,643 million tolar was sold for 4,930 million tolar on 31 August 2002.

Due to contractual agreement the Bank assumed the obligation to cover expenses related to the liquidation process of LBS. Expenses of the subsidiary liquidation process in the amount of 663 million tolar are presented as accrued expenses. The Group also redeemed investments in the amount of 65 million dollars from LBS Bank. Revaluation exchange differences from previous years in the amount of 3,965 million tolar that formed part of the investment were transferred from equity and recognised as an income at the date of the sale of investment in LBS Bank.

Union Invest Capital a.s., Ostrava, Czech Republic which provides factoring and forfeiting services, became a subsidiary of NLB in April 2002 when NLB acquired a 100% share of the company. In May 2002 the company was renamed as LB Factoring CZ, a.s., Ostrava, Czech Republic and included in the consolidated financial statements for the first time during the year. On consolidation goodwill amounting to 4 million tolar was accounted for.

The acquisitions and disposals of subsidiaries had the following effect on the Group's assets and liabilities.

IN MILLIONS OF TOLARS		
Year 2002		
	Acquisition	Disposal
Cash and balances with Central Bank	-	(221)
Placements with, and loans to, other banks	449	(6,411)
Loans and advances to customers	7,132	(17,244)
Investment securities	514	(4,200)
Other assets, including tax assets	38	(663)
Accrued income and deferred expenses	63	(221)
Property and equipment	4	(2,211)
Intangible assets	2	-
Deposits from banks	-	8,843
Borrowings from banks	(6,506)	14,370
Deposits from other customers	-	1,547
Other liabilities	(1,112)	-
Accruals and deferred income	(72)	221
Subordinated liabilities	-	1,547
Net identifiable assets and liabilities	512	(4,643)
Goodwill on acquisitions	4	
Consideration paid/(received), satisfied in cash	516	(4,930)
Cash and cash equivalents (acquired)/disposed of	(447)	2,434
Net cash outflow/(inflow)	69	(2,496)

7. INTEREST INCOME/(EXPENSE)

Interest relates to the following types of borrower and depositor:

IN MILLIONS OF TOLARS				
	Year 2002		Year 2001	
	Income	Expense	Income	Expense
Enterprises	54,411	13,974	52,546	15,122
Government departments and agencies	33,309	4,800	30,547	6,069
Banks	22,631	12,848	15,248	11,021
Citizens	26,750	39,037	25,957	34,807
Financial organisations	2,576	7,931	2,164	6,547
TOTAL	139,677	79,851	126,462	73,566

8. FEES AND COMMISSIONS INCOME/(EXPENSE)

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
FEES AND COMMISSIONS INCOME		
Payments	9,546	6,148
Intermediation	9,371	4,574
Administrative services	5,539	4,663
Lending	3,612	2,787
Guarantees	2,467	2,668
Investment funds	1,150	977
Depositing valuables and safe custody	267	242
Other services	146	120
TOTAL	32,098	22,179
FEES AND COMMISSIONS EXPENSE		
Banking services	3,421	2,816
Payments	213	218
Intermediation	420	337
Brokerage	189	94
Other services	333	196
TOTAL	4,576	3,661

Fees and commissions income for the year 2002 includes the amount of 3,029 million tolars received from a major multinational company for providing tolars for the purchase of shares of a major Slovenian company.

9. OTHER OPERATING INCOME

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Income from non-banking services	3,036	2,665
Rent receivable	914	1,113
Dividends	270	376
Negative goodwill	1,374	1,246
Provisions released	84	269
Profit on disposal of property and equipment	129	-
Valuation of investment property	-	277
Other	800	849
TOTAL	6,607	6,795

10. IMPAIRMENT CHARGE FOR BAD AND DOUBTFUL DEBTS (NET)

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Impairment charge for/(Write back of) bad and doubtful debts from:		
- loans and advances to other banks	1,642	(220)
- loans and advances to customers	8,899	8,015
- other assets	(375)	162
- contingent liabilities and commitments	4,495	895
- country risk provisions	-	1,271
Write offs	1,649	406
Recoveries on loans previously written off	(1,335)	(265)
TOTAL	14,975	10,264

Impairment charges in 2002 are related to higher volume of credit related commitments of the Group and to the reclassification of some of the Group's clients.

11. GENERAL ADMINISTRATIVE EXPENSES

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Employee costs		
- gross salaries	22,156	18,083
- social security costs	5,050	4,235
- other employee costs	4,253	3,369
Other general administrative expenses		
- cost of materials	3,641	3,067
- cost of services	19,591	14,809
TOTAL	54,691	43,563

The number of persons employed by the Group as at 31 December 2002 was: 5,253 (2001: 5,185).

12. OTHER OPERATING EXPENSES

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Depreciation	7,037	5,701
Taxes and other compulsory public revenues	514	117
Membership fees	307	284
Loss on disposal of property and equipment	-	870
Goodwill	278	167
Change in value of investment property	30	-
Provisions	1,275	849
Other	1,226	311
TOTAL	10,667	8,299

In the year 2002 the Bank decreased depreciation rates from 25% to 14.3% for ATM's (automated teller machines) and from 20% to 10% for communication equipment due to the extension of their estimated useful lives. The adoption of new depreciation rates resulted in a decrease in depreciation expenses by 265 million tolar.

In 2002 the Group established additional provisions for the employment-restructuring program in the amount of 500 million tolar, provisions for pensions costs in the amount of 229 million tolar and additional provisions for legal proceedings from Tržaška kreditna banka (see note 35).

13. TAX

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Slovenian tax on profit	6,927	6,024
Other taxes on profit	216	(36)
Balance sheet tax	849	1,779
Deferred tax	182	59
Share of tax of associates	448	901
TOTAL	8,622	8,727
PROFIT BEFORE TAX	24,720	23,560
Revaluation taken into income statement for statutory accounts purposes	-	(3,888)
Income not assessable for tax purpose	(8,424)	(2,145)
Expenses not deductible for tax purpose	14,741	7,601
Income which increase taxable basis	643	1,191
Tax allowance	(3,403)	(667)
TAXABLE PROFIT	28,277	25,652
Income tax expense	7,773	6,948
Average income tax rate	27.49%	27.09%
Balance sheet tax	849	1,779
TOTAL TAX	8,622	8,727

Among tax allowance, the most important allowance is investment reserve in the amount of 10% of taxable income. Tax allowance for the year 2001 is rather lower due to a claw-back of tax allowance for investment in fixed assets from 2000.

14. EARNINGS PER SHARE

Basic earning per share is calculated by dividing the net profit by the weighted average number of ordinary shares in issue.

	Year 2002	Year 2001
Net profit (expressed in millions of tolar)	14,203	13,465
Number of ordinary shares (millions)	7.6	7.7
Basic and diluted earnings per share (expressed in tolar per share)	1,859	1,753

Subordinated loans and debt securities in issue have no future conversion rights and consequently there are no dilutive potential ordinary shares.

15. CASH AND BALANCES WITH THE CENTRAL BANK

IN MILLIONS OF TOLARS

	Year 2002		Year 2001	
	Tolar	Foreign Currency	Tolar	Foreign Currency
Cash	13,677	7,055	11,054	45,721
Balances with the Central Bank	40,451	6,923	36,534	5,419
	54,128	13,978	47,588	51,140
TOTAL	68,106		98,728	

The Bank is required to maintain an obligatory reserve with the Bank of Slovenia, relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as obligatory reserve is as follows:

- 7% of time deposits up to 90 days,
- 2% of time deposits from 91 days to 2 years and deposits in foreign currency due in 2 years.

16. PLACEMENTS WITH, AND LOANS TO, OTHER BANKS

a) Analysis by type of placements and loans

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Repayable on demand		
- in tolar	1	4
- in foreign currency	14,412	19,922
Other short-term		
- in tolar	3,339	5,663
- in tolar with foreign currency clause	71	42
- in foreign currency	123,164	108,169
Long-term		
- in tolar	80	78
- in tolar with foreign currency clause	219	369
- in foreign currency	20,131	17,508
	161,417	151,755
Impairment provisions	(8,952)	(7,609)
TOTAL	152,465	144,146

b) Geographical analysis

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Slovenia	23,483	49,771
OECD countries	113,689	90,158
Other countries	15,293	4,217
TOTAL	152,465	144,146

c) Movements in impairment provisions

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	7,609	4,151
Additional provisions	-	448
Acquisition of subsidiaries	-	3,289
Exchange differences on opening balance of subsidiaries	120	53
Impairment provisions (see Note 10)	1,642	(220)
Write offs	(114)	(112)
Disposal of subsidiary	(305)	-
Balance at 31 December	8,952	7,609

17. SECURITIES HELD FOR TRADING

	IN MILLIONS OF TOLARS	
	Year 2002	Year 2001
Bonds		
- Republic of Slovenia	71,783	18,718
- other	32,815	90,832
Shares	21,558	18,012
Other bills and securities	15,948	1,196
TOTAL	142,104	128,758

Other bills and securities include bonds of Zavarovalnica Maribor d.d., Maribor in the amount of tolar 561 million which represent subordinated debt purchased.

18. LOANS AND ADVANCES TO CUSTOMERS**a) Analysis by type of customer**

	IN MILLIONS OF TOLARS			
	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
In tolar				
- citizens	100,575	101,096	92,676	97,841
- enterprises	172,995	112,353	177,302	129,142
- government departments and agencies	16,473	70,784	22,905	50,380
- financial organisations	5,212	793	6,444	828
In tolar with foreign currency clause				
- citizens	900	3,900	829	3,409
- enterprises	10,850	18,648	10,170	17,925
- government departments and agencies	157	368	139	451
- financial organisations	118	1,722	28	1,769
In foreign currency				
- citizens	4,189	8,375	951	5,330
- enterprises	155,238	181,426	122,930	139,930
- government departments and agencies	1,338	1,134	1,262	799
- financial organisations	2,768	2,156	1,371	1,142
	470,813	502,755	437,007	448,946
Impairment provisions	(50,138)	(23,526)	(48,870)	(18,732)
	420,675	479,229	388,137	430,214
TOTAL	899,904		818,351	

b) Analysis by sector

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Manufacturing	221,170	190,819
Electricity, gas and water	22,272	32,195
Government	60,001	50,006
Citizens	219,045	201,296
Services	121,442	93,725
Commerce and finance	175,956	157,942
Transport, storage and communication	80,831	92,083
Agriculture, forestry and fishing	11,227	8,590
Construction	27,664	20,925
Miscellaneous	33,960	38,372
	973,568	885,953
Impairment provisions	(73,664)	(67,602)
TOTAL	899,904	818,351

c) Analysis by type of advance

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Loans	878,735	819,531
Overdrafts	61,425	35,440
Credit cards	8,887	7,360
Finance lease receivables	21,697	19,396
Discounted bills	237	1,191
Called guarantees	2,587	3,035
	973,568	885,953
Impairment provisions	(73,664)	(67,602)
TOTAL	899,904	818,351

d) Analysis of movements

IN MILLIONS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Balance at 1 January	388,137	430,214	288,421	305,897
Additional provisions	-	-	(1,803)	(939)
Acquisition of subsidiaries	4,010	557	73,660	60,175
Exchange differences on opening balance in subsidiaries	1,774	2,139	1,620	1,498
Increase				
- loans disbursed	1,053,319	262,538	729,811	225,608
- interest added to principal	8,564	18,400	4,092	19,238
- exchange differences	1,052	2,640	5,382	8,600
Decrease				
- repayments	(1,210,262)	(36,328)	(862,655)	(31,991)
- write offs	(423)	-	(248)	-
Transfer from subsidiaries to joint venture	(873)	240	-	-
Disposal of subsidiary	(5,357)	(11,538)	-	-
Current portion of long-term loans	182,663	(182,663)	157,094	(157,094)
Impairment provisions	(1,929)	(6,970)	(7,237)	(778)
Balance at 31 December	420,675	479,229	388,137	430,214

e) Movements in impairment provisions

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	67,602	42,694
Additional provisions	-	2,742
Acquisition of subsidiaries	227	15,250
Exchange differences on opening balance in subsidiaries	557	216
Impairment provisions (see Note 10)	8,899	8,015
Write offs	(3,070)	(1,315)
Disposal of subsidiaries	(506)	-
Transfer from subsidiary to joint venture	(45)	-
Balance at 31 December	73,664	67,602

f) Finance leases

Loans and advances to customers include finance lease receivables:

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Gross investment in finance leases		
Not later than 1 year	8,938	8,402
Later than 1 year and not later than 5 years	14,761	11,680
Later than 5 years	1,752	3,111
	25,451	23,193
Unearned future finance income on finance leases	(3,754)	(3,797)
Net investment in finance leases	21,697	19,396
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	8,398	8,158
Later than 1 year and not later than 5 years	11,547	8,204
Later than 5 years	1,752	3,034
TOTAL	21,697	19,396

The allowance for unrecoverable finance lease receivables included in the provision for loan losses amounted to 1,097 million tolars (2001: 942 million).

g) Guaranteed loans

Loans, which are guaranteed by the Republic of Slovenia or non Group Slovenian banks and have not been specifically provided against, are as follows:

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Republic of Slovenia guarantees	86,799	101,034
Other bank's guarantees	9,557	3,050
TOTAL	96,356	104,084

Loans and advances are further analysed in the following notes: Currency risk Note 46, Liquidity risk Note 47, Interest rate risk Note 48, Fair value of loans and deposits Note 40 and Related party transactions Note 44.

19. INVESTMENT SECURITIES**a) Analysis by type: available-for-sale portfolio**

	IN MILLIONS OF TOLARS			
	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
- treasury bills of the Bank of Slovenia	226,501	-	185,672	-
- treasury bills of other banks	254	-	553	-
- bonds of the Republic of Slovenia	22	2,693	41	2,059
- bonds of the Republic of Croatia	-	215	-	283
- bonds of the Republic of Macedonia	-	39	-	46
- bonds of the Republic of Bosnia and Herzegovina	-	1,612	-	491
- other securities	-	52,809	4,962	12,244
In tolar				
- treasury bills of the Bank of Slovenia	182,416	-	58,372	-
- bonds of the Republic of Slovenia	4,096	78,330	3,813	102,465
- other securities	-	3,089	10,430	2,971
In tolar with foreign currency clause				
- bonds of the Republic of Slovenia	-	10,559	-	12,285
- other securities	-	1,239	-	960
	413,289	150,585	263,843	133,804
TOTAL a)	563,874		397,647	

b) Analysis by type: held-to-maturity portfolio

	IN MILLIONS OF TOLARS	
	Year 2002	Year 2001
In foreign currency		
- bonds of the Republic of Slovenia	2,180	2,825
- other securities	23	-
In tolar		
- bonds of the Republic of Slovenia		
- bonds for paid foreign currency deposits	28,818	26,922
TOTAL b)	31,021	29,747
TOTAL a) + b)	594,895	427,394

20. INVESTMENT PROPERTY

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	5,991	-
Exchange differences on opening balance of subsidiaries	13	-
Transfers from property and equipment	-	5,840
Acquisition of subsidiaries	-	1,082
Additions	74	294
Disposals	(424)	(1,502)
Transfers to property and equipment	(394)	-
Fair value adjustment	(30)	277
Balance at 31 December	5,230	5,991

21. INVESTMENTS IN ASSOCIATED COMPANIES

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
In tolar		
- banks	5,020	4,348
- financial organisations	204	236
- enterprises	570	593
In foreign currency		
- banks	2,202	2,175
TOTAL	7,996	7,352

The associated companies are:

Name	Nature of business	Country of incorporation	Voting power held
Banka Celje d.d., Celje	Banking	Slovenia	37%
Adria Bank A.G., Vienna	Banking	Austria	28%
Skupna pokojninska družba d.d., Ljubljana	Insurance	Slovenia	27%
Bankart d.o.o., Ljubljana	Card Processing	Slovenia	39%
ICJ d.o.o., Domžale	Real Estate	Slovenia	20%

The investments in associated companies comprise:

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Shares	5,040	5,012
Debentures	147	142
Share of profits	2,809	2,198
TOTAL	7,996	7,352

The movements on investments in associated companies comprise:

	IN MILLIONS OF TOLARS	
	Year 2002	Year 2001
Balance at 1 January	7,352	14,033
Merger of subsidiary banks	-	(1,279)
Transfer from associates to subsidiaries	-	(6,602)
Exchange differences on opening balance and revaluation during the year	81	577
Share of profits before tax	1,338	1,858
Share of tax	(448)	(902)
Dividends received	(452)	(339)
Other	125	6
Balance at 31 December	7,996	7,352

22. INTEREST IN JOINT VENTURES

The jointly controlled companies are:

Name	Nature of business	Country of incorporation	Voting power held
LB Factors d.o.o., Ljubljana	Finance	Slovenia	50%
Bančno zavarovalna družba d.o.o., Ljubljana	Insurance	Slovenia	50%

At 31 December, included in the consolidated financial statements are the following items that represent the Group's interest in the assets and liabilities, revenue and expenses of joint ventures:

	IN MILLIONS OF TOLARS
	Year 2002
Placements with, and loans to other banks	171
Loans and advances to customers	1,624
Other assets	130
Deposits and borrowing from banks	(843)
Deposits and borrowings from other customers	(389)
Other liabilities	(275)
Net assets	418
Income	624
Expenses	(625)
	(1)

23. OTHER ASSETS, INCLUDING TAX ASSETS**a) Analysis by type of asset**

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Accrued interest due	4,458	4,500
Debtors	3,067	868
Stocks	2,666	3,143
Claim for taxes and other dues	1,964	960
Fair value of derivative financial instruments	1,502	1,724
Prepayments	944	825
Fees and commissions due	360	416
Items in the course of collection	132	1,021
Deferred tax assets	-	589
Other items	1,504	3,550
	16,597	17,596
Impairment provisions	(2,978)	(1,719)
TOTAL	13,619	15,877

b) Movements in impairment provisions

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	1,719	1,473
Acquisition of subsidiaries	-	200
Exchange differences on opening balance in subsidiaries	4	-
Impairment provisions	1,473	162
Write offs	(211)	(116)
Transfer from subsidiary to joint venture	(7)	-
Balance at 31 December	2,978	1,719

24. DEFERRED INCOME TAXES

The components of the net deferred tax assets at 31 December 2002 and 2001 are as follows:

	IN MILLIONS OF TOLARS	
	Year 2002	Year 2001
Deferred tax asset:		
Difference between financial statements and tax basis for bad debt deduction	-	200
Capitalized interest on real property	-	123
Write down of real estate	75	82
Net operating loss carry forward	-	274
Pension provisions	76	86
Other	-	(14)
Total deferred tax asset	151	751
Deferred tax liabilities:		
Basis difference of property and equipment	-	(4)
Fair value of financial instruments	(708)	(506)
Total deferred tax liability	(708)	(510)
Net deferred tax asset	(557)	241

25. ACCRUED INCOME AND DEFERRED EXPENSES

	IN MILLIONS OF TOLARS	
	Year 2002	Year 2001
Accrued interest not yet due	16,363	11,966
Deferred expenses	585	291
Goodwill	253	588
Negative goodwill	(2,623)	(3,650)
TOTAL	14,578	9,195

Movement on goodwill/negative goodwill account:

	IN MILLIONS OF TOLARS	
	Goodwill	Negative goodwill
Cost		
- at 1 January 2002	1,083	8,726
- additions	(57)	133
- at 31 December 2002	1,026	8,859
Amortisation		
- at 1 January 2002	495	5,076
- amortisation charge for the year	278	1,160
- at 31 December 2002	773	6,236
Carrying amount	253	2,623

26. PROPERTY AND EQUIPMENT

IN MILLIONS OF TOLARS

	Land & buildings	Leasehold improvements	Computers	Furniture & equipment	Motor vehicles	Assets in course of transfer or implementation	Total
Cost or valuation							
- at 1 January 2002	60,930	1,391	21,311	15,446	2,207	1,024	102,309
- acquisition of subsidiaries	509	-	13	102	3	7	634
- exchange differences on opening balance in subsidiaries	282	2	3	21	7	4	319
- additions	212	5	168	514	510	8,509	9,918
- transfers	2,343	282	2,909	1,666	54	(7,254)	-
- eliminations and disposals	(887)	-	(1,654)	(1,286)	(467)	(213)	(4,507)
- transfer from subsidiary to joint venture	(46)	-	(8)	(32)	(4)	(1)	(91)
- disposal of subsidiaries	(2,743)	-	(83)	(197)	-	-	(3,023)
- at 31 December 2002	60,600	1,680	22,659	16,234	2,310	2,076	105,559
Depreciation							
- at 1 January 2002	15,009	1,011	14,845	9,306	1,104	-	41,275
- acquisition of subsidiaries	21	-	11	64	1	-	97
- exchange differences on opening balance in subsidiaries	(1)	2	(2)	5	3	-	7
- eliminations and disposals	(212)	187	(1,613)	(858)	(366)	-	(2,862)
- charge for the year	1,086	-	2,535	1,901	538	-	6,060
- transfer from subsidiary to joint venture	(1)	-	(4)	(9)	(2)	-	(16)
- disposal of subsidiaries	(281)	-	(61)	(155)	-	-	(497)
- at 31 December 2002	15,621	1,200	15,711	10,254	1,278	-	44,064
Net carrying value							
- at 31 December 2002	44,979	480	6,948	5,980	1,032	2,076	61,495
- at 1 January 2002	45,921	380	6,466	6,140	1,103	1,024	61,034

Due to adoption of new Slovenian Accounting Standards in 2002 the Bank tested the property's value in use by an external independent qualified valuer. The value in use exercise was based on estimating present value of the future cash flows from continuing use and disposal. The exercise results proved that property is not impaired.

27. INTANGIBLE ASSETS

IN MILLIONS OF TOLARS

	Software licences	Assets in Course of Transfer or Implementation	Total
Cost or valuation			
- at 1 January 2002	2,889	3,488	6,377
- acquisition of subsidiaries	1	2	3
- exchange differences on opening balance in subsidiaries	7	-	7
- additions	102	6,807	6,909
- eliminations and disposals	(56)	-	(56)
- transfers	6,772	(6,772)	-
- transfer from subsidiary to joint venture	(1)	(3)	(4)
- at 31 December 2002	9,714	3,522	13,236
Depreciation			
- at 1 January 2002	898	-	898
- acquisition of subsidiaries	1	-	1
- exchange differences on opening balance in subsidiaries	2	-	2
- eliminations and disposals	(35)	-	(35)
- charge for the year	790	-	790
- transfer from subsidiary to joint venture	(1)	-	(1)
- at 31 December 2002	1,655	-	1,655
Net carrying value			
- at 31 December 2002	8,059	3,522	11,581
- at 1 January 2002	1,991	3,488	5,479

28. DEPOSITS FROM BANKS

IN MILLIONS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
On demand				
- in tolar	1,264	-	435	-
- in foreign currency	30,465	-	24,938	-
Other				
- in tolar	19,041	137	27,281	160
- in tolar with foreign currency clause	-	-	496	-
- in foreign currency				
- NBY	-	-	9,457	-
- other banks	62,796	809	45,562	-
Current portion of long-term deposits	218	(218)	50	(50)
	113,784	728	108,219	110
TOTAL	114,512		108,329	

29. BORROWINGS FROM BANKS

IN MILLIONS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
In tolar				
- Central Bank	-	1	-	37
- other banks	647	-	3,200	8
In tolar with foreign currency clause				
- other banks	111	129	-	439
In foreign currency				
- other banks	70,309	139,134	84,111	115,206
Current portion of long-term borrowings	32,580	(32,580)	28,673	(28,673)
	103,647	106,684	115,984	87,017
TOTAL	210,331		203,001	

30. DEPOSITS FROM OTHER CUSTOMERS

IN MILLIONS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Demand deposits				
Enterprises				
- in tolar	67,956	-	62,233	-
- in foreign currency	51,556	-	44,045	-
Government departments and agencies				
- in tolar	16,858	-	8,293	-
- in foreign currency	624	-	455	-
Citizens				
- in tolar	168,242	-	138,647	-
- in foreign currency	158,645	-	155,753	-
Financial organisations				
- in tolar	1,171	-	3,548	-
- in foreign currency	1,122	-	1,033	-
Time deposits				
Enterprises				
- in tolar	93,139	24,649	78,407	24,545
- in tolar with foreign currency clause	-	3,118	1,083	3,306
- in foreign currency	30,479	1,700	26,271	9,842
Government departments and agencies				
- in tolar	41,772	15,996	29,580	10,968
- in tolar with foreign currency clause	-	3	7	3
- in foreign currency	140	-	124	-
Citizens				
- in tolar	254,534	81,801	219,732	58,734
- in tolar with foreign currency clause	5	738	250	570
- in foreign currency	151,494	45,894	139,476	44,333
Financial organisations				
- in tolar	15,104	26,479	12,783	31,324
- in tolar with foreign currency clause	277	3,601	315	4,215
- in foreign currency	2,773	422	111	74
Current portion of long-term deposits	111,425	(111,425)	115,134	(115,134)
	1,167,316	92,976	1,037,280	72,780
TOTAL	1,260,292		1,110,060	

31. BORROWINGS FROM OTHER CUSTOMERS

IN MILLIONS OF TOLARS

	Year 2002		Year 2001	
	Short-term	Long-term	Short-term	Long-term
Republic of Slovenia				
- in foreign currency	-	5,415	-	7,137
Financial organisations				
- in tolar	5,373	1,589	5,796	539
- in tolar with foreign currency clause	-	61	-	-
- in foreign currency	766	9,588	5,011	6,816
Enterprises				
- in tolar	18	-	-	-
- in foreign currency	31,039	5,662	34,828	341
Current portion of long-term borrowings	3,047	(3,047)	2,396	(2,396)
	40,243	19,268	48,031	12,437
TOTAL	59,511		60,468	

32. DEBT SECURITIES

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Debt securities		
- in tolar	64,863	14,981
- in tolar with foreign currency clause	11,781	7,077
- in foreign currency	130	592
TOTAL	76,774	22,650

33. OTHER LIABILITIES

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Suppliers	5,710	3,375
Liabilities to traders for credit cards	5,138	4,443
Taxes payable	2,603	1,985
Accrued salaries	2,552	1,582
Payments received in advance	1,822	458
Accrued interest due	1,332	1,337
Fair value of derivative financial instruments	1,146	808
Items in the course of payment	742	9,355
Deferred tax liabilities	557	348
Net liabilities for funds managed on behalf of third parties	69	88
Fees and commissions due	29	365
Other liabilities	3,497	1,920
TOTAL	25,197	26,064

34. ACCRUALS AND DEFERRED INCOME

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Accrued interest not yet due	17,685	16,577
Other accrued expenses	1,985	726
Deferred income	1,274	1,409
TOTAL	20,944	18,712

35. PROVISIONS FOR LIABILITIES AND CHARGES

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Provisions for contingent liabilities (see Note 42)	17,499	12,955
Provisions in respect of premature debt repayments	110	110
Restructuring provisions	1,100	1,414
Provisions for pensions	2,219	1,985
Country risk provisions	2,155	2,155
Other provisions	96	2,264
TOTAL	23,179	20,883

Movements in other provisions

	Year 2002	Year 2001
Balance at 1 January	2,264	590
Exchange differences on opening balance	27	-
Acquisition of subsidiaries	-	1,405
Provisions made	544	645
Costs incurred	(2,655)	(104)
Provisions released	(84)	(269)
Disposal of subsidiaries	-	(3)
Balance at 31 December	96	2,264

Other provisions include provisions utilised by LHB Bank for tax payments totalling 1,237 million tolars.

The Bank had in the year 2001 a legal proceeding with Tržaška Kreditna Banka (TKB) due to deposits withdrawal performed the year before the start of the liquidation process of TKB. The Bank established in the year 2001 and in the beginning of the year 2002 a provision against potential claims in the amount of 1,000 million tolars. Due to out-of-court settlement at the end of the year 2002 in the amount of 951 million tolars, the unused provision was released to income.

36. SUBORDINATED LIABILITIES

IN MILLIONS OF TOLARS

	Due	Interest rate	Year 2002	Year 2001
1. Subordinated loans				
Banks:				
EURO 25m floating rate loan	2006	EURIBOR+2.5%	5,757	5,535
EURO 35m floating rate loan	2007	EURIBOR+2.3%	8,059	7,749
EURO 90m floating rate loan	2021	EURIBOR+1.2%	20,724	-
Enterprises:				
SIT 400m floating rate deposits	2005	GPI+6%	400	400
			34,940	13,684
2. Subordinated notes				
DEM 9m fix rate bonds	2004	7.5%	1,060	1,019
			1,060	1,019
TOTAL			36,000	14,703

In accordance with the Decree on the calculation of capital, capital requirements and capital adequacy of banks and saving banks, four subordinated long-term loans are included in the Bank's Tier 2 capital. The loan agreements do not contain any provisions on conversion to capital or any other liabilities.

In the year 2002, interest and commission expenses of the Bank, on the basis of this loan, amounted to 1,364 million tolars.

Subordinated liabilities include a loan received by the KBC bank with the contractual provision that gives NLB the right to pre-pay the whole or any part of the loan (being a minimum amount of 5 million euro) at any time beyond five years after the date of contractual agreement.

Subordinated liabilities include a subordinated long-term deposit from Zavarovalnica Triglav totalling 400 million tolars. The maturity of the deposit was extended until 1 April 2005 with an annex to the 29 April 2000 contract. The fixed interest rate is GPI + 6%. Interest expenses of the Group arising from this contract in the year 2002 amounted to 53 million tolars.

Securities as subordinated liabilities have an interest rate of 7.5%. Interest is paid every 6 months in tolars at the Bank of Slovenia mid-market euro to tolar exchange rate as at 31 December 2002.

37. MINORITY INTEREST

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	27,745	18,927
Acquisition of subsidiaries	-	12,813
Exchange differences on opening balance	297	-
Share of profits	1,895	1,368
Dividends paid	(781)	(482)
Decrease due to merger of subsidiaries	-	(6,038)
Other	(1,628)	1,157
Balance at 31 December	27,528	27,745

38. SHARE CAPITAL

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January 2002	15,255	13,800
Merger of subsidiary banks	-	1,554
(Purchase)/Sale of own shares (net)	40	(99)
Balance at 31 December 2002	15,295	15,255

At 31 December 2002, the NLB subscribed capital was represented by 7,682,015 ordinary shares, each with the nominal value of 2,000 tolar. The shares are issued in a non-materialised form and are registered in the Centralna klirinško depotna družba d.d. register. All shares are ordinary bearer shares of the same class.

At the end of the year 2002 the NLB shareholders' ledger included 959 shareholders of whom 265 were legal entities, 691 private individuals and 3 non-residents. In September 2002 in the NLB privatisation process the Republic of Slovenia sold 34% of all shares to KBC and 5% of all shares to EBRD. After the sale the Republic of Slovenia remains the principal shareholder as at 31 December 2002, holding 2,743,284 NLB shares representing 35.71% of subscribed capital.

39. RESERVES

IN MILLIONS OF TOLARS

	Legal reserve	Revaluation reserve	General banking reserve	Total
Balance at 1 January 2002	1,881	23,010	4,873	29,764
Foreign exchange differences on opening net assets of subsidiaries and associates	-	84	-	84
Transfer from retained earnings	1,359	-	989	2,348
Transfer of foreign exchange difference of LBS Bank	-	(3,965)	-	(3,965)
Balance at 31 December 2002	3,240	19,129	5,862	28,231

Legal reserves were increased by 1,359 million tolar as a result of transfer of appropriate amount of revaluation from retained earnings in accordance with the Companies Act. The Group reserves are treated as non-distributable reserves.

According to the decision of the Assembly, in the year 2002 the Bank paid a dividend of 428.52 tolar per share amounting to 3,292 million tolar and remunerations to the Management Board amounting to tolar 5 million.

40. FAIR VALUES OF LOANS AND DEPOSITS

The fair values of the following financial instruments differ from their carrying amounts shown in the balance sheet:

IN MILLIONS OF TOLARS

	Year 2002	
	Carrying amount	Fair value
Placements with, and loans to, other banks	151,625	157,333
Loans and advances to customers	900,744	919,602
Debt securities held to maturity	31,021	28,160
Deposits from banks	114,511	113,350
Borrowings from banks	210,332	196,819
Deposits from other customers	1,260,293	1,214,425
Borrowings from other customers	59,511	59,572
Subordinated liabilities	36,000	35,568

Due from other banks

The estimated fair value of the deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of specific provisions for impairment. The Bank uses a discount rate adjustment approach. In other words the stream of contracted cash flows forms the basis for the present value computation, and the rates used to discount those cash flows reflects the uncertainties of the cash flows.

Deposits and borrowings

The fair value to the depository institution of a demand deposit depends on the expectations of the timing and amounts of withdrawals of the existing balance, the level of prevailing interest rates with similar terms, the costs of servicing the deposit and the Bank's own credit risk. This is essentially important for core demand deposits, which have a positive fair value.

The estimated fair value of other deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Debt securities held to maturity

Securities held to maturity include bonds of the Republic of Slovenia for paid foreign currency deposits.

The fair value of the bonds of the Republic of Slovenia for paid foreign currency deposits amounted to tolar 25,937 million and is calculated by using discounted cash flow techniques. Due to their lower contractual interest rates against market interest rate of comparable market bonds the fair value of these bonds is lower than the carrying value. These bonds represent first-class securities and according to the Bank's positive intention to hold them to maturity they will be, irrespective of their fair value, settled at maturity at their carrying value.

The fair value of other securities held to maturity is based on their quoted market price or calculated by using discounted cash flow techniques and it is higher or equal to the carrying value of these securities.

41. CAPITAL RATIOS

IN MILLIONS OF TOLARS

	Balance sheet / nominal amount		Risk weighted amount	
	Year 2002	Year 2001	Year 2002	Year 2001
Balance sheet assets (net of impairment provisions)				
Due from banks	220,571	242,874	42,727	32,203
Loans and advances to customers	899,904	818,351	680,144	630,471
Trading and investment securities *	606,058	556,152	99,054	97,526
Property and equipment	61,495	61,034	61,495	61,034
Other assets	183,945	43,894	41,792	36,547
	1,971,973	1,722,305		
Off-balance sheet positions				
Credit related commitments	311,951	306,907	225,135	195,049
Forwards-based derivative instruments	715,631	324,096	1,475	1,876
Total risk-weighted assets			1,151,823	1,054,705
BIS Capital Ratios				BIS %
Tier 1 capital	114,548	105,927	9.9%	10.0%
Tier 1 + Tier 2 capital	157,248	135,003	13.7%	12.8%

* Including credit and market risk

The capital adequacy ratios are calculated in accordance with the Bank of International Settlements guidelines. These guidelines are intended to apply to major international banks based in OECD countries. In order to make comparisons with other major banks, Slovenia has been treated as a member of the OECD. The principal effect of this is to apply counterparty risk weights of 0% to Slovenian government debt and 20% to debts of other Slovenian banks.

42. CONTINGENT LIABILITIES AND COMMITMENTS**a) Credit related commitments**

Documentary (and standby) letter of credit constitutes a definite undertaking of the issuing bank, provided that the stipulated documents are presented to the nominated or the issuing bank and that the terms and conditions of the credit are complied with:

- if the credit provides for sight payment - to pay at sight
- if the credit provides for deferred payment - to pay on the maturity date determinable in accordance with the stipulations of the credit.

Such undertakings can also be issued for credits received in the form of confirmation. It is usually done at the request or authorisation of the opening bank and constitutes a definite undertaking of the confirming bank, in addition to that of the issuing bank.

Foreign exchange derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange risks. Foreign exchange exposure associated with derivatives is normally offset by entering into counterbalancing positions, thereby minimising the foreign exchange risk and cash amounts required to liquidate the contracts. The Group maintains strict control limits on net open positions, (i.e. the difference between purchase and sale contracts) by both currency and term. Unless otherwise indicated, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed by collateral (initial margin or good faith deposits) or as part of the overall borrowing limits granted to customers.

The following table indicates the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers.

	IN MILLIONS OF TOLARS	
	Year 2002	Year 2001
Foreign currency guarantees		
- short-term	23,401	29,195
- long-term	75,353	77,567
Tolar guarantees		
- short-term	14,916	16,258
- long-term	38,551	31,525
Foreign exchange letters of credit		
- short-term	3,459	5,672
Commitments to extend credit	173,770	159,645
	329,450	319,862
Impairment provisions (see Note 35)	(17,499)	(12,955)
TOTAL	311,951	306,907

b) Legal cases

In addition to the above mentioned contingent liabilities amounting to 311,951 million tolars a contingent liability arising from a law-suit filed by Banca Popolare Veneta against LB InterFinanz for DEM 10 million (= 5.113 million euros) and respective 5% interest since December 1996 exists. The plaintiff contests the authenticity of a document that granted LB InterFinanz to utilize a guarantee. LB InterFinanz's lawyers do not assess the plaintiff's rationale as compelling and expect the District Court to rule in favour of LB InterFinanz in the year 2003, otherwise LB InterFinanz will appeal the decision at the Supreme Court. The Bank has, due to favourable expectations of LB InterFinanz's lawyers, issued a guarantee on behalf of LB InterFinanz.

c) Derivative financial instruments

	IN MILLIONS OF TOLARS					
	Year 2002			Year 2001		
	Notional amount	Fair values		Notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Forward exchange contracts						
- hedging	13,394	771	17	78,775	132	-
- trading	7,470	273	99	9,389	304	9
Foreign currency swaps with Bank of Slovenia						
- hedging	644,232	-	831	166,079		715
Other swaps						
- interest rate swaps -Trading	13,854	136	185	31,423	262	84
- foreign currency swaps - Trading	14,637	230	14	-	-	-
Options						
- trading	13,668	92	-	31,389	-	-
Futures exchange contracts						
- trading	8,376	-	-	7,040	1,026	-
TOTAL	715,631	1,502	1,146	324,095	1,724	808

Fair values of the above derivative financial assets and liabilities are included in other assets or other liabilities.

By its nature the Group's activities are related to the use of financial instruments including derivatives. The Group provides transactions in foreign exchange and interest rate contracts to its clients and then simultaneously enters into another financial derivative instrument contract in order to offset the unfavourable exposure from the first financial derivative instruments.

Certain derivative financial instruments, while providing effective economic hedges under risk management strategy of the Group, do not qualify for hedge accounting under the specific accounting rules and are therefore treated as derivatives held for trading.

d) Movements in impairment provisions for contingent liabilities and commitments

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Balance at 1 January	12,955	11,229
Exchange differences on opening balance of subsidiaries	49	-
Additional provisions	-	70
Acquisition of subsidiaries	-	761
Impairment provisions (see Note 10)	4,495	895
Balance at 31 December	17,499	12,955

e) Assets pledged

Assets are pledged mainly as collateral for deposits and borrowings.

IN MILLIONS OF TOLARS

	Year 2002	Year 2001	Year 2002	Year 2001
	Asset		Related liability	
Investment securities	47,615	52,423	46,155	5,261
Leasing receivables	2,743	3,003	2,743	3,003
Factoring	95	-	271	-
Buildings	-	1,710	-	1,433
TOTAL	50,453	57,136	49,169	9,697

f) Operating lease commitments

Where a Group company is the lessee the future minimum lease payments under non cancellable building operating leases are as follows:

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Not later than one year	557	514
Later than one year and not later than five years	2,611	3,000
Later than five years	-	3
TOTAL	3,168	3,517

43. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages assets totalling 117,761 million tolar (2001: 115,938 million) on behalf of third parties. Managed funds' assets are accounted for separately from those of the Group. Income and expenses of these funds are for the account of the respective fund and no liability falls on the Group in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

44. RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates. The volumes of related party transactions, outstanding balances at the year-end, are as follows:

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Loans and advances		
- directors	671	480
- associated companies	10,148	13,402
- KBC Bank	2,303	-
TOTAL	13,122	13,882
Borrowings and deposits		
- associated companies	7,907	17,740
- KBC Bank	28,783	-
TOTAL	36,690	17,740

45. SUBSIDIARIES

The subsidiaries are:

Name	Nature of business	Country of incorporation	Percentage interest	
			Ownership interest	Voting power held
Banka Domžale d.d., Domžale	Banking	Slovenia	40	40
FIN-DO d.o.o., Domžale	Finance	Slovenia	100	100
Koroška banka d.d., Slovenj Gradec	Banking	Slovenia	41	42
Banka Zasavje d.d., Trbovlje	Banking	Slovenia	40	42
LHB Internationale Handelsbank AG, Frankfurt/Main	Banking	Germany	56	56
VB Banka Banja Luka AD, Banja Luka	Banking	Republic of Bosnia and Herzegovina	59	59
LHB Immobilien GmbH, Frankfurt/Main	Property	Germany	100	100
LHB Finance d.o.o., Ljubljana	Finance	Slovenia	100	100
LHB Trade d.o.o., Zagreb	Trading	Republic of Croatia	100	100
LHB Consult d.o.o., Beograd	Trading	Union of Serbia and Montenegro	100	100
Tutunska Banka AD, Skopje	Banking	Republic of Macedonia	53	53
Commercebanc d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	100	100
LB Leasing d.o.o., Ljubljana	Finance	Slovenia	100	100
LB Leasing Koper d.o.o., Koper	Finance	Slovenia	100	100
LB Leasing Maribor d.o.o., Maribor	Finance	Slovenia	100	100
Optima Leasing d.d., Ljubljana	Finance	Slovenia	100	100
LB HIPO d.o.o., Ljubljana	Property	Slovenia	100	100
LB Propria d.o.o., Ljubljana	Property	Slovenia	100	100
Golf Arboretum d.o.o, Volčji potok	Sport and catering trade	Slovenia	51	51
LB Trading d.o.o., Ljubljana	Trading	Slovenia	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Slovenia	100	100
LB Maksima d.o.o, Ljubljana	Investment management	Slovenia	91	100
FIT Leasing d.o.o., Velenje	Finance	Slovenia	100	100
Feniks d.o.o., Murska Sobota	Finance	Slovenia	100	100
REAL d.o.o., Novo mesto	Property	Slovenia	90	90
LB InterFinanz AG, Zürich	Finance	Switzerland	100	100
LB InterFinanz Praha s.r.o., Praha	Finance	Czech republic	100	100
LB InterFinanz Italia s.r.l., Gorizia	Finance	Italy	51	51
LBIS d.o.o.e.l., Skopje	Finance	Republic of Macedonia	100	100
LB Factoring CZ a.s., Ostrava	Finance	Czech Republic	100	100

Where voting power is less than 50% specific agreements ensure control.

46. CURRENCY RISK

The amount of consolidated assets and liabilities denominated in tolar and in foreign currency as at 31 December 2002 is analysed below:

	IN MILLIONS OF TOLARS				
	Tolars	USD	EUR ¹	Other	Total
ASSETS					
Cash and balances with the Central Bank	54,128	788	11,554	1,636	68,106
Placements with, and loans to, other banks	3,345	22,934	105,310	20,876	152,465
Securities held for trading	91,436	20,622	29,527	519	142,104
Loans and advances to customers	541,633	34,023	310,711	13,537	899,904
Investment securities	296,749	14,060	282,669	1,417	594,895
Investment property	4,877	-	-	353	5,230
Investments in associated companies	5,794	-	2,202	-	7,996
Other assets, including tax assets	10,531	1,248	1,640	200	13,619
Accrued income and deferred expenses	10,743	129	3,243	463	14,578
Property and equipment	50,183	-	9,744	1,568	61,495
Intangible assets	11,438	-	118	25	11,581
TOTAL ASSETS	1,080,857	93,804	756,718	40,594	1,971,973
LIABILITIES					
Deposits from banks	20,442	19,826	72,042	2,202	114,512
Borrowings from banks	648	3,949	200,240	5,494	210,331
Deposits from other customers	807,701	52,253	375,419	24,919	1,260,292
Borrowings from other customers	6,980	3,899	48,276	356	59,511
Debt securities	64,863	115	11,796	-	76,774
Other liabilities	18,784	1,907	2,809	1,697	25,197
Accruals and deferred income	15,571	699	4,433	241	20,944
Provisions for liabilities and charges	13,027	522	7,734	1,896	23,179
Subordinated liabilities	400	-	35,600	-	36,000
Minority interests	16,056	-	7,254	4,218	27,528
Share capital	15,295	-	-	-	15,295
Paid in equity surplus	12,546	-	-	-	12,546
Retained earnings	61,507	-	1,686	(1,560)	61,633
Reserves	26,911	-	1,320	-	28,231
TOTAL LIABILITIES	1,080,731	83,170	768,609	39,463	1,971,973
NET BALANCE SHEET POSITION	126	10,634	(11,891)	1,131	-
Off balance sheet position ²	73	(8,340)	13,875	(5,209)	399
As at 31 December 2001					
TOTAL ASSETS	902,194	99,827	668,236	52,048	1,722,305
TOTAL LIABILITIES	897,531	103,074	604,418	117,282	1,722,305
NET BALANCE SHEET POSITION	4,663	(3,247)	63,818	(65,234)	-
Off balance sheet position ²	9,900	(13,307)	9,079	(2,061)	3,611

Notes:

¹ EUR relates to euro - zone currencies

² The notional amounts of foreign currency derivative financial instruments are translated into tolar at the exchange rate of the Bank of Slovenia as at the last day of the accounting period.

47. LIQUIDITY RISK

The amount of consolidated assets and liabilities analysed over the remaining period at 31 December 2002 to the contractual maturity date is as follows:

IN MILLIONS OF TOLARS

	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No Maturity	Total
ASSETS							
Cash and balances with the Central Bank	68,106	-	-	-	-	-	68,106
Placements with, and loans to, other banks	89,696	31,157	14,391	17,189	32	-	152,465
Securities held for trading	127,322	3,378	11,404	-	-	-	142,104
Loans and advances to customers	77,391	77,257	266,027	356,692	122,537	-	899,904
Investment securities	108,133	165,163	139,993	110,752	70,854	-	594,895
Investment property	-	-	-	-	-	5,230	5,230
Investments in associated companies	-	-	-	-	-	7,996	7,996
Other assets, including tax assets	9,197	395	1,319	2,478	230	-	13,619
Accrued income and deferred expenses	3,137	3,067	10,634	(2,587)	327	-	14,578
Property and equipment	-	-	-	-	-	61,495	61,495
Intangible assets	-	-	-	-	-	11,581	11,581
TOTAL ASSETS	482,982	280,417	441,513	484,524	196,235	86,302	1,971,973
LIABILITIES							
Deposits from banks	55,637	49,671	8,476	691	37	-	114,512
Borrowings from banks	26,385	13,516	63,746	97,301	9,383	-	210,331
Deposits from other customers	602,200	166,870	398,246	86,188	6,788	-	1,260,292
Borrowings from other customers	33,264	830	6,149	17,679	1,589	-	59,511
Debt securities	2	1	316	71,574	4,881	-	76,774
Other liabilities	17,859	3,537	2,874	219	708	-	25,197
Accruals and deferred income	4,207	2,984	12,645	1,106	2	-	20,944
Provisions for liabilities and charges	910	373	380	18,698	2,818	-	23,179
Subordinated liabilities	-	-	-	15,276	20,724	-	36,000
TOTAL LIABILITIES	740,464	237,782	492,832	308,732	46,930	-	1,826,740
NET LIQUIDITY GAP	(257,482)	42,635	(51,319)	175,792	149,305	86,302	145,233
As at 31 December 2001							
TOTAL ASSETS	474,670	247,112	309,218	397,729	213,720	79,856	1,722,305
TOTAL LIABILITIES	650,371	309,072	406,193	188,101	31,133	-	1,584,870
NET LIQUIDITY GAP	(175,701)	(61,960)	(96,975)	209,628	182,587	79,856	137,435

The previous table analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

48. INTEREST RATE RISK

The period of notice required to change interest rates at 31 December 2002 is set out below:

IN MILLIONS OF TOLARS

	TOTAL	Non interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	Over 1 year
ASSETS							
Cash and balances with the Central Bank	68,106	34,901	33,205	33,205	-	-	-
Placements with, and loans to, other banks	152,465	506	151,959	84,299	43,046	24,371	243
Securities held for trading	142,104	18,128	123,976	103,327	3,026	17,623	-
Loans and advances to customers	899,904	1,654	898,250	490,986	51,433	259,842	95,989
Investment securities	594,895	4,699	590,196	211,377	167,083	197,037	14,699
Investment property	5,230	5,230	-	-	-	-	-
Investments in associated companies	7,996	7,996	-	-	-	-	-
Other assets, including tax assets	13,619	13,619	-	-	-	-	-
Accrued income and deferred expenses	14,578	14,578	-	-	-	-	-
Property and equipment	61,495	61,495	-	-	-	-	-
Intangible assets	11,581	11,581	-	-	-	-	-
TOTAL ASSETS	1,971,973	174,387	1,797,586	923,194	264,588	498,873	110,931
LIABILITIES							
Deposits from banks	114,512	141	114,371	57,984	45,893	10,493	1
Borrowings from banks	210,331	-	210,331	30,950	45,851	121,768	11,762
Deposits from other customers	1,260,292	2,623	1,257,669	1,003,817	142,251	100,696	10,905
Borrowings from other customers	59,511	18	59,493	3,901	34,955	19,491	1,146
Debt securities	76,774	-	76,774	20,297	119	11	56,347
Other liabilities	25,197	25,197	-	-	-	-	-
Accruals and deferred income	20,944	20,944	-	-	-	-	-
Provisions for liabilities and charges	23,179	23,179	-	-	-	-	-
Subordinated liabilities	36,000	-	36,000	-	400	34,540	1,060
TOTAL LIABILITIES	1,826,740	72,102	1,754,638	1,116,949	269,469	286,999	81,221
ON BALANCE SHEET INTEREST SENSITIVITY GAP				(193,755)	(4,881)	211,874	29,710
As at 31 December 2001:							
ON BALANCE SHEET INTEREST SENSITIVITY GAP				(45,221)	(22,515)	(106,182)	165,075

The period of notice required to change interest rates at 31 December 2001 is set out below:

	IN MILLIONS OF TOLARS						
	TOTAL	Non interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	Over 1 year
ASSETS							
Cash and balances with the Central Bank	98,728	82,057	16,671	16,671	-	-	-
Placements with, and loans to, other banks	144,146	1,534	142,612	71,513	51,970	18,841	288
Securities held for trading	128,758	18,012	110,746	101,251	243	9,252	-
Loans and advances to customers	818,351	6,523	811,828	447,321	96,866	164,870	102,771
Investment securities	427,394	4,139	423,255	119,755	120,292	26,073	157,135
Investment property	5,991	5,991	-	-	-	-	-
Investments in associated companies	7,352	7,352	-	-	-	-	-
Other assets, including tax assets	14,153	14,153	-	-	-	-	-
Accrued income and deferred expenses	10,919	10,919	-	-	-	-	-
Property and equipment	61,034	61,034	-	-	-	-	-
Intangible assets	5,479	5,479	-	-	-	-	-
TOTAL ASSETS	1,722,305	217,193	1,505,112	756,511	269,371	219,036	260,194
LIABILITIES							
Deposits from banks	84,340	1,502	82,838	67,450	11,573	3,715	100
Borrowings from banks	226,990	-	226,990	32,992	72,182	110,554	11,262
Deposits from other customers	1,110,060	3,754	1,106,306	691,559	178,811	177,522	58,414
Borrowings from other customers	60,468	-	60,468	9,504	27,688	11,178	12,098
Debt securities	22,650	-	22,650	227	1,232	8,965	12,226
Other liabilities	25,256	25,256	-	-	-	-	-
Accruals and deferred income	19,520	19,520	-	-	-	-	-
Provisions for liabilities and charges	20,883	20,883	-	-	-	-	-
Subordinated liabilities	14,703	-	14,703	-	400	13,284	1,019
TOTAL LIABILITIES	1,584,870	70,915	1,513,955	801,732	291,886	325,218	95,119
ON BALANCE SHEET INTEREST SENSITIVITY GAP				(45,221)	(22,515)	(106,182)	165,075

The previous tables summarise the Group's exposure to interest rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or maturity dates.

The effective interest rates for monetary financial instruments are as follows:

	Year 2002		Year 2001	
	Tolars %	Foreign currency %	Tolars %	Foreign currency %
ASSETS				
Cash and balances with the Central Bank	0.99	0.00	0.76	0.00
Placements with, and loans to, other banks	6.35	2.82	9.29	4.64
Securities held for trading	5.74	3.15	4.29	5.05
Loans and advances to customers	13.70	4.13	12.26	8.52
Investment securities	12.56	2.90	12.54	3.74
Other assets, including tax assets	0.56	0.00	2.77	0.00
TOTAL ASSETS	10.28	3.78	11.29	5.71
LIABILITIES				
Deposits from banks	8.08	2.92	7.78	2.34
Borrowings from banks	3.84	2.22	8.24	5.38
Deposits from other customers	7.84	1.82	7.43	2.89
Borrowings from other customers	11.41	0.71	7.67	5.52
Debt securities	10.40	0.00	12.23	2.27
Other liabilities	1.82	0.00	2.92	0.00
Subordinated liabilities	-	5.94	-	7.04
TOTAL LIABILITIES	5.28	2.75	6.21	3.74

Effective interest rates (EIR) are calculated on the net basis of NLB daily averages of each item and yearly averages for the rest of the Group. These averages are totalled and compared with income and expenses of each item of asset and liability balance.

49. SEGMENTAL ANALYSIS

IN MILLIONS OF TOLARS

Year ended 31 December 2002	Retail banking	Corporate banking	Financial markets	Other (unallocated)	Group
Interest and similar income	29,804	66,519	43,275	79	139,677
Fees and commissions income	16,370	13,481	2,247	-	32,098
Gains arising from securities (net)	-	3,800	5,700	-	9,500
Gains arising from dealing in foreign currencies (net)	1,250	500	750	-	2,500
Other operating income	1,967	656	1,553	2,382	6,558
Foreign exchange gains/losses	-	-	(2,240)	-	(2,240)
OPERATING INCOME	49,437	39,854	11,947	2,428	103,666
SEGMENT RESULT	11,464	6,544	3,251	2,123	23,382
Share of profits of associated companies					1,338
PROFIT BEFORE TAX					24,720
Tax					(8,622)
PROFIT AFTER TAX					16,098
Minority interest					(1,895)
NET PROFIT FOR THE PERIOD					14,203
TOTAL ASSETS	271,181	747,226	919,507	34,059	1,971,973
TOTAL LIABILITIES	894,481	455,235	468,379	8,645	1,826,740
Minority interests	-	-	-	27,528	27,528
SHAREHOLDERS' EQUITY	25,307	50,849	39,667	1,883	117,705

IN MILLIONS OF TOLARS

Year ended 31 December 2001	Retail banking	Corporate banking	Financial markets	Other (unallocated)	Group
Operating income	38,343	34,774	8,222	2,489	83,828
SEGMENT RESULT	9,220	8,460	3,505	517	21,702
Share of profits of associated companies					1,858
PROFIT BEFORE TAX					23,560
Tax					(8,727)
PROFIT AFTER TAX					14,833
Minority interest					(1,368)
NET PROFIT FOR THE PERIOD					13,465
Total assets	310,080	725,648	653,146	33,431	1,722,305
Total liabilities	785,285	451,060	342,517	6,008	1,584,870
Minority interests				27,745	27,745
Shareholder's equity	23,559	47,336	36,927	1,753	109,575
Capital expenditure	5,713	5,303	1,202	173	12,391
Depreciation	(2,628)	(2,440)	(553)	(80)	(5,701)
Amortisation	497	462	105	15	1,079

The Group is organised into three main business segments:

- **Private banking**, including: loans to and deposits from private individuals, balances on their current accounts, credit and payment cards etc.
- **Corporate business**, including: commercial loans given to business and state owned entities ("public sector"), deposits received from them, giro accounts etc.
- **Financial markets**, including: relations with banks and other financial institutions, treasury activities, investment banking.

Other operations of the Group comprise capital investments, institutional finance and providing computer services, none of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet and excluding items such as taxation and borrowings.

Geographical segments

No individual country, apart from Slovenia, accounts for more than 10% of the Group's total assets, total liabilities, credit commitments, operating income and capital expenditure.

50. RECONCILIATION OF NET PROFIT, TOTAL ASSETS AND EQUITY ACCORDING TO SLOVENE ACCOUNTING STANDARDS (SAS) TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IN MILLIONS OF TOLARS

RECONCILIATION OF NET PROFIT

	Note	Year 2002	Year 2001
NET PROFIT SAS		5,730	7,323
Revaluation of tangible and intangible assets, investments, capital and provisions for general banking risks	a)	-	4,194
Foreign exchange differences on investment in LBS Bank	b)	3,965	-
Fair value of financial instruments	c)	2,790	699
General banking risks provision	d)	990	794
Negative goodwill	e)	799	1,029
Foreign exchange differences on capital investments	b)	(84)	(843)
Other	j)	13	269
Net profit IFRS		14,203	13,465

RECONCILIATION OF TOTAL ASSETS

TOTAL ASSETS SAS		1,980,971	1,742,443
Provisions	f)	(14,005)	(11,431)
Fair value of financial instruments	c)	8,377	5,136
Negative goodwill	e)	(2,623)	(3,649)
Own shares	g)	(491)	(50)
Other	j)	(256)	(339)
Suspended income	h)	-	(6,009)
Deferred income on finance lease	i)	-	(3,796)
TOTAL ASSETS IFRS		1,971,973	1,722,305

RECONCILIATION OF EQUITY

EQUITY SAS		107,270	104,060
General banking risks provisions	d)	6,067	4,970
Fair value of financial instruments	c)	6,721	4,085
Negative goodwill	e)	(1,786)	(2,584)
Own shares	g)	(491)	(691)
Other	j)	(76)	(150)
EQUITY IFRS		117,705	109,690

a) Revaluation of tangible and intangible assets, investments, capital and general banking risks provision

Under new SAS introduced in 2002 the capital maintenance in terms of constant purchasing power units is not requested any more if the increase of the euro/tolar exchange rate does not exceed 5.5 %.

Therefore in 2002 there is no revaluation adjustment of certain assets and liabilities except reversed revaluation of intangible assets in the balance sheet, which relates to previous years and is included in the item Other.

b) Exchange differences on investment in LBS bank and other capital investments

Under SAS the exchange differences on investments in subsidiaries are reported in the income statement.

Under IFRS these exchange differences are deferred and are classified as equity until the disposal of the investment when they are recognised as income or as expenses.

c) Financial instruments

Under SAS, securities held for trading, securities available for sale and derivative financial instruments are stated in the balance sheet at the lower of cost or fair value, but under IFRS they are stated at their fair value.

d) General banking risks provision

Under SAS general banking provision is charged to the income statement and presented as a separate item on the liability side of the balance sheet. Under IFRS it is accounted as an appropriation of retained earnings among shareholders equity.

e) Negative goodwill

The negative goodwill under IFRS arose from the consolidation of subsidiaries in 1998, while under SAS no negative goodwill arose from these transactions, since the equity method of accounting for investments in subsidiaries was applied in the Bank's stand-alone financial statements.

Under SAS the negative goodwill arising from the merger of subsidiary banks is presented among provisions for liabilities and charges, while under IFRS both negative goodwill on consolidation and negative goodwill on mergers are presented as a deduction of accrued income and deferred expenses.

f) Provisions

Under SAS specific provisions for "A" classified assets are presented in the liability side of the balance sheet, but under IFRS they are presented as a deduction of a principal outstanding.

g) Own shares

Under SAS own shares are presented as a separate item among assets, while under IFRS they are netted against the capital.

h) Suspended income

According to the new SAS there is no difference between SAS and IFRS in respect of presentation of suspended income. Under previous SAS interest on non-accrual loans were suspended until payment and presented as deferred income, but under IFRS treatment suspended income is netted against assets.

i) Deferred income on finance lease

According to the new SAS there is no difference between SAS and IFRS in respect of presentation of deferred income from finance lease transactions. Under the previous SAS unearned income on finance leases was reported as deferred income, while under IFRS there is no unearned income presented in the balance sheet.

j) Other

In the income statement this item includes the timing differences in derecognition of some other provisions under SAS and IFRS, the reversal of SAS depreciation of investment property. In the balance sheet and equity, this item also includes reversal of intangible assets SAS related revaluation.

Nova Ljubljanska banka d.d., Ljubljana

Audited Financial Statements
for the NLB d.d. according to
International Financial Reporting Standards

INCOME STATEMENT FOR YEAR ENDED 31. DECEMBER 2002 (PARENT BANK)

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
Interest and similar income	111,102	92,727
Interest expense and similar charges	(68,297)	(57,927)
NET INTEREST INCOME	42,805	34,800
Fees and commissions income	25,148	15,675
Fees and commissions expense	(4,231)	(3,199)
NET FEES AND COMMISSIONS	20,917	12,476
Gains arising from securities (net)	3,937	4,824
Gains arising from dealing in foreign currencies (net)	1,988	1,193
Gains arising from derivatives (net)	163	724
Foreign exchange losses (net)	(1,458)	(686)
Foreign exchange profits of LBS Bank	1,922	-
Other operating income	4,649	4,880
OPERATING INCOME	74,923	58,211
Impairment for bad and doubtful debts	(11,178)	(8,814)
General administrative expenses	(40,817)	(29,363)
Other operating expenses	(6,948)	(5,601)
PROFIT BEFORE TAX	15,980	14,433
Tax	(6,302)	(6,083)
NET PROFIT FOR THE PERIOD	9,678	8,350

BALANCE SHEET AS AT 31. DECEMBER 2002 (PARENT BANK)

IN MILLIONS OF TOLARS

	Year 2002	Year 2001
ASSETS		
Cash and balances with the Central Bank	55,350	79,220
Placements with, and loans to, other banks	130,033	114,138
Securities held for trading	126,194	73,228
Loans and advances to customers	705,678	636,802
Investment securities	481,261	366,994
Investment property	1,034	1,615
Investments in associated companies	5,144	3,771
Investments in subsidiaries	12,970	16,557
Other assets	9,087	10,362
Accrued income and deferred expenses	12,501	8,438
Property and equipment	41,637	39,673
Intangible assets	10,483	4,883
TOTAL ASSETS	1,591,372	1,355,681
LIABILITIES		
Deposits from banks	84,987	80,864
Borrowings from banks	125,406	112,669
Deposits from other customers	1,097,846	962,057
Borrowings from other customers	20,746	17,449
Debt securities	76,352	22,131
Other liabilities	19,164	23,153
Accruals and deferred income	17,514	15,298
Provisions for liabilities and charges	14,867	13,482
Subordinated liabilities	34,540	13,284
TOTAL LIABILITIES	1,491,422	1,260,387
SHAREHOLDERS' EQUITY		
Share capital	15,364	15,356
Paid in equity surplus	12,710	12,654
Reserves	27,067	26,797
Retained earnings	44,809	40,487
TOTAL SHAREHOLDERS' EQUITY	99,950	95,294
TOTAL EQUITY AND LIABILITIES	1,591,372	1,355,681

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2002 (PARENT BANK)

IN MILLIONS OF TOLARS

	Share capital ¹	Reserves ²	Paid in equity surplus	Retained earnings	Total Equity
Balance at 1 January 2001	13,800	23,349	-	25,333	62,482
Effect of adopting IAS 39	-	-	-	972	972
Effect of adopting IAS 40	-	(176)	-	176	-
Profit for the year	-	-	-	8,350	8,350
Dividends paid	-	-	-	(2,046)	(2,046)
Merger of banks	1,554	-	12,651	8,611	22,816
Revaluation adjustment:					
- property and equipment	-	1,888	-	-	1,888
- investments in associated companies and subsidiaries					
-	844	844			
Transfer to general banking reserve	-	892	-	(892)	-
Purchase of own shares	(10)	-	-	(42)	(52)
Sale of own shares	12	-	3	44	59
Other	-	-	-	(19)	(19)
Balance at 31 December 2001	15,356	26,797	12,654	40,487	95,294
Balance at 1 January 2002	15,356	26,797	12,654	40,487	95,294
Profit for the year	-	-	-	9,678	9,678
Dividends paid	-	-	-	(3,292)	(3,292)
Foreign exchange differences on investments in subsidiaries and associates	-	84	-	-	84
Transfer of foreign exchange differences of investment in LBS Bank to income	-	(1,922)	-	-	(1,922)
Transfer to general banking reserve	-	750	-	(750)	-
Transfer to legal reserve	-	1,358	-	(1,358)	-
Sale of own shares	8	-	56	42	106
Other	-	-	-	2	2
Balance at 31 December 2002	15,364	27,067	12,710	44,809	99,950

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002 (PARENT BANK)

IN MILLIONS OF TOLARS

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and commission receipts	120,863	84,816
Interest and commission payments	(66,922)	(47,888)
Dividend receipts	1,140	840
Recoveries on loans previously written off	905	117
Cash payments to employees and suppliers	(40,850)	(28,900)
Trading gains	6,129	5,304
Other income	2,797	3,847
Taxation paid	(7,496)	(6,200)
Cash flows from operating profit before changes in operating assets and liabilities	16,566	11,936
(Increase)/decrease in operating assets:		
Placements with, and loans to, other banks	(6,955)	12,805
Loans and advances to customers	(69,925)	(56,309)
Short-term securities	(98,968)	5,184
Other assets	2,841	(3,122)
Increase/(decrease) in operating liabilities:		
Deposits from banks	3,222	23,474
Deposits from other customers	126,490	203,356
Other liabilities	(6,612)	4,873
NET CASH FROM OPERATING ACTIVITIES	(33,341)	202,197
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of non - dealing investments	19,799	14,851
Purchase of non - dealing investments	(2,541)	(563)
Proceeds from sales of property and equipment	407	104
Purchase of property, equipment and intangibles	(12,464)	(10,134)
NET CASH FROM INVESTING ACTIVITIES	5,201	4,258
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease)/increase in borrowings	65,971	(35,768)
Proceeds from sales of own shares	106	8
Subordinated debt received	20,418	-
Dividends paid	(3,292)	(2,046)
NET CASH FROM FINANCING ACTIVITIES	83,203	(37,806)
Effect of exchange rate changes on cash and cash equivalents	6,954	13,739
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,017	182,388
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	455,301	220,514
Increase in cash and cash equivalents following the merger	-	52,399
CASH AND CASH EQUIVALENTS AT END OF PERIOD	517,318	455,301
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002 (PARENT BANK)		
	2002	2001
Cash and cash equivalents comprise:		
Cash and balances with the Central Bank	55,350	79,220
Placements with, and loans to, other banks maturing within 3 months	107,529	96,495
Investment securities maturing within 3 months	235,686	213,229
Securities held for trading maturing within 3 months	118,753	66,357
TOTAL	517,318	455,301

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