

Annual Report
2005

I know why

NLB Group is the largest international financial group in Slovenia, consisting of 58 members in 16 countries all over the world. Focusing on the wishes and requirements of our customers, we have established strong relations based on confidence, security and mutual respect. We are aware of the fact that perfection is hidden in details.

The smallest wishes of our customers and associates may be the most important ones for them. We strive, therefore, to meet their demands in every detail, to investigate thoroughly every possibility, to fulfill even the smallest needs that create the feeling of complete satisfaction - one of the essential things in life.

Over 3 million customers and associates know why they have entrusted the NLB Group with their banking, financial and insurance matters. We are convinced that we will justify their confidence and exceed their expectations, so we are headed for the future with a new motto, concentrating all our efforts in one simple and strong sentence: I know why.

I know why

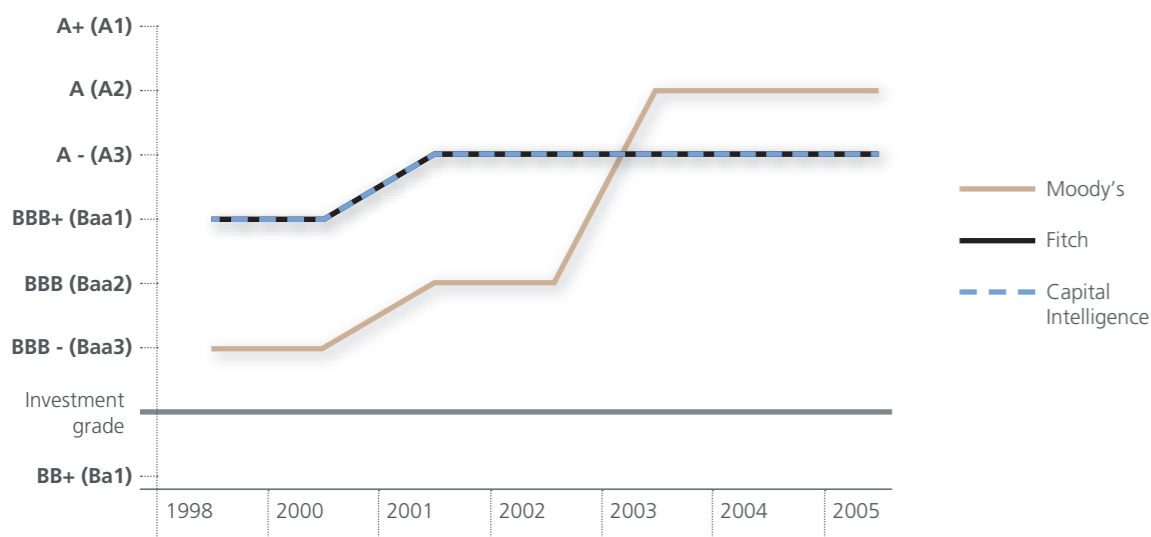
Key financial highlights

NLB Group

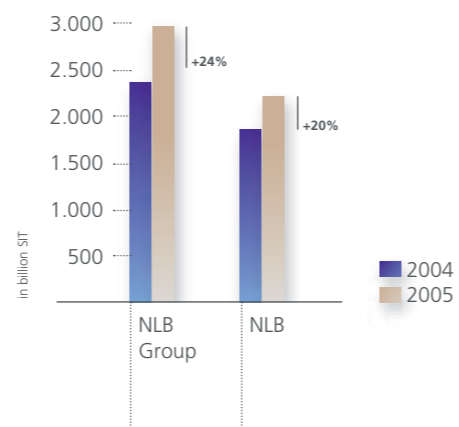
	2004		2005	
	SIT	EUR	SIT	EUR
Key Income Statement figures (in million)				
Net interest income	58 633	245	64 559	269
Net non-interest income	49 770	208	52 141	218
Total costs	70 130	293	78 062	326
Profit before tax	19 215	80	19 747	82
Minority interest	1 211	5	2 146	9
Net profit	8 666	36	11 913	50
Key Balance Sheet figures (in million)				
Balance sheet	2 366 567	9 871	2 946 206	12 298
Loans to non-banking sector	1 247 968	5 205	1 632 011	6 6812
Deposits and borrowing from non-banking sector	1 473 074	6 144	1 660 236	6 930
Total equity	117 174	489	126 804	529
Minority interest	20 760	87	22 060	92
Key performance figures				
Return on average equity before tax (ROE)	14.2%		13.8%	
Return on average assets before tax (ROA)	0.8%		0.7%	
Costs to net income (CIR)	64.7%		66.9% (63.9%)*	
Capital adequacy	10.8%		9.0%	
Key figures under IFRS				
Profit before tax (in million)	22 157	92	25 250	105
Profit after tax (in million)	13 643	57	16 973	71
Return on average equity before tax (ROE)	11.8%		12.4%	
Return on average assets before tax (ROA)	1.0%		0.9%	
Capital adequacy under BIS	15.8%		13.2%	
International ratings				
Moody's		A2		A2
Capital intelligence		A-		A-
Fitch		A-		A-
Exchange rate 1 EURO = SIT	239.7		239.6	

* CIR does not consider write offs of intangible asstes

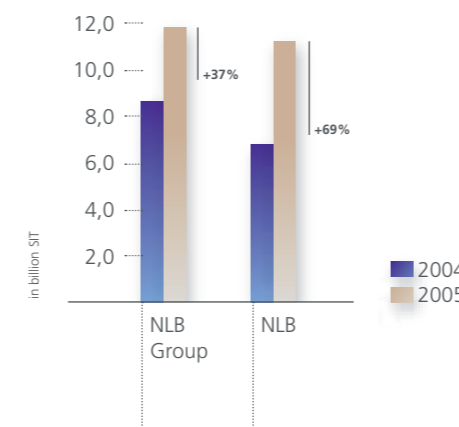
Picture 1
→ International rating of NLB



Picture 2
→ Net profit growth



Picture 3
→ Balance sheet growth



NLB

	2004		2005	
	SIT	EUR	SIT	EUR
Key Income Statement figures (in million)				
Net interest income	37 928	158	38 147	159
Net non-interest income	38 000	159	37 775	158
Total costs	47 915	200	51 087	213
Profit before tax	13 790	58	15 021	63
Net profit	6 881	29	11 634	49
Key Balance Sheet figures (in million)				
Balance sheet	1 864 772	7 778	2 231 301	9 314
Loans to non-banking sector	900 389	3 756	1 140 207	4 759
Deposits and borrowing from non-banking sector	1 188 191	4 956	1 221 793	5 100
Total equity	121 098	505	130 520	545
Key performance figures				
Return on average equity before tax (ROE)	11.6%		11.9%	
Return on average assets before tax (ROA)	0.8%		0.7%	
Costs to net income (CIR)	63.1%		67.3% (62.7%)*	
Market share in total assets	32.7%		32.0%	
Capital adequacy	11.7%		10.2%	
Key figures under IFRS				
Profit before tax (in million)	13 252	55	15 224	64
Profit after tax (in million)	9 310	39	11 403	48
Return on average equity before tax (ROE)	10.4%		10.7%	
Return on average assets before tax (ROA)	0.8%		0.7%	
Capital adequacy under BIS	15.6 %		13.4%	
Key figures per share				
Number of shares	7 682 015		7 682 015	
Nominal value	2 000	8.3	2 000	8.3
Book value	15 763.8	65.8	16 990.3	70.9
Net profit per share (EPS)	895.7	3.7	1 514.4	6.3
Dividens payout	358.3	1.5	605.8	2.5
Exchange rate 1 EURO = SIT	239.7		239.6	

* CIR does not consider write offs of intangible asstes

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Statement of the President of the Management Board of NLB



Dear business partners, clients, shareholders and employees of NLB Group!

Our work processes never stop and we almost continually increase the shareholders' equity while doing our best to provide services for our clients 24 hours a day, 365 days a year through modern distribution channels and our constantly improved information support. It has become a habit that we draw a line by means of the annual report, look backwards and forwards, and congratulate each other on our achievements while also making critical assessments of those things that could have been done in a better way and identify those parts of our business system that could impede the achievement of our principal goal: to make NLB Group of tomorrow even better, for all of you and all of us who have been entrusted to manage and govern it.

The top quality of operations and reliable financial results are confirmed by the excellent international credit risk ratings. In NLB and NLB Group we build good relationships based on confidence, security and mutual respect. We have thus managed to consolidate our position as the largest Slovenian international financial group and are becoming an important actor in many foreign markets. In 2005, the Group was joined by eight new members, four of which are banks, two leasing companies, factoring company and a newly-founded pension company. Today, NLB Group has 58 members in the domestic and 16 foreign markets, providing numerous combinations of financial services in 17 banks, 11 leasing companies, 10 companies involved in factoring and forfeiting, 3 insurance companies, 2 asset management companies as well as in 15 companies engaged in other fields.

We must not forget that in spite of the rapid expansion of its Group, judging on the basis of all significant criteria NLB itself was also successful in 2005 for it ended the year in accordance with the set goals. NLB Group in 2005 recorded 11.9 billion tolar (5 million euros) in post-tax profit, representing growth of 37 percent over the previous year. NLB made 11.6 billion tolar in post-tax profit (49 million euros), accounting for 69 percent growth over 2004. In 2005, total assets of NLB Group amounted to 2,946.2 billion tolar (12,3 billion euros), thereby recording growth of 24 percent.

We place our clients, their needs and requirements at the centre of the Group's operations. There are more than three million of those who appreciate that we can understand them, provide advice, solve their problems and, to sum it all up, who know why they have chosen our Group. Our orientation is also expressed by the new corporate image and motto 'I know why'. You will find this in all messages of the Group and what was once no more than an idea and a challenge a few years ago is both a fact today and a promise for the future.

Expansion of NLB Group as well as the range of universal banking-financial products offered in both domestic and foreign markets is our key objective. We therefore claim that the ambitious goals we set for 2006 and the following years can only be achieved together.

It must also be emphasised that NLB's operations in the period covered by this report are characterised by the large number of development and technological projects, the most important being the introduction of the euro which is a complex task in terms of contents, organisation, logistics, costs and investments. I therefore feel obliged to acknowledge here the more than 8,000 employees of NLB Group whose contribution to our success is invaluable.

Marjan Kramar
President of the Management Board & CEO

In the first half of 2005, the Supervisory Board of NLB was composed of the following members: Anton Žunič (Chairman), Uroš Slavinec (Deputy Chairman), Frans Louise Florquin, Zvone Ivanušič Metka Tekavčič, Anne Fossemalle, Christian Defrancq, André Bergen and Borut Jamnik.

New members of the Supervisory Board of NLB were appointed at the General Meeting of Shareholders held on 29 June 2005, namely: Žiga Lavrič (Chairperson), Andrijana Starina Kosem (Deputy Chairperson), Zvonko Ivanušič, Peter Ješovnik, M.A., Igor Marinšek, Marko Rus, André Bergen, Christian Defrancq, Riet Docx, Frans Florquin and Anne Fossemalle.

The Supervisory Board of NLB takes the modern principles of corporate governance into account with the aim of providing efficient and professional supervision. It also takes into account the interests of its clients, shareholders and employees, while acting within the framework of responsibilities laid down in the Banking Act, the Companies Act and the other regulations which are binding on NLB. The Audit Committee, the Development Committee, the Risk Committee and the Remuneration Committee are all active within the framework of the Supervisory Board.

Activities in 2005

In 2005, the Supervisory Board held 8 regular and 7 correspondence sessions. As a rule, the management and governance functions are aimed at managing both risks and the capital, implementing the internal audit activities, compiling the Annual Plans and realising the consolidation and further expansion of operations within NLB Group. In 2005, the Supervisory Board adopted a series of decisions which support and enable implementation of NLB's development strategy. One of its core guidelines was maintenance of the leading position in Slovenia and international consolidation in the wider region.

Members of the Supervisory Board of NLB regularly monitored the Bank's activities related to capital investments. In 2005, the Bank purchased four banks: Euromarket banka, Podgorica in Montenegro, Continental banka, Novi Sad in Serbia, and Razvojnja banka, Banja Luka and Tuzlanska banka, Tuzla in Bosnia and Herzegovina and four newly founded companies: the leasing companies Optima Leasing in Zagreb and LB Leasing in Podgorica, Prvi Faktor in Belgrade, and the pension company Nov penziski fond in Skopje. The Supervisory Board of NLB confirmed the intention to purchase a majority stake in West East Bank a.d., Sofia.

Besides monitoring the Group's expansion activities, the Supervisory Board also controlled the maintenance of appropriate capital adequacy and implementation of the Bank's equity management. This set of tasks also comprises the issue of an innovative debt instrument through which NLB will ensure further development of the Group and growth in the volume of operations as well as acknowledgement of the effects of the introduction of the International Financial Reporting Standards on the Bank's capital adequacy.

The Supervisory Board adopted the 2004 Annual Report, assessed the operations as positive and approved the proposed allocation of net distributable profit of NLB for 2004. It regularly monitored the operations through quarterly inspections. The auditing company PricewaterhouseCoopers d.o.o., Ljubljana, was designated external auditor to audit the 2005 Annual Report.

The Supervisory Board approved the operating plans for the following years with the emphasis on 2006. The key challenges are introduction of the euro, transition to the IFRS and introduction of Basel II.

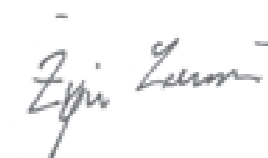
In 2005, the Supervisory Board of NLB discussed the development of information technology. The members backed the strategy of IT development and the target architecture of the IT system, assessing that it would provide a sound basis for the implementation of all planned projects.

Within the framework of ongoing monitoring of the work of NLB's Internal Audit, the Supervisory Board of NLB dealt with the report on the audits conducted. The members also dealt with reports on the work of the Risk Committee and the Audit Committee, and approved the action plan of the Internal Audit and the Legal and Compliance Office for 2006.

2005 Annual Report

On 11 May 2006, the Management Board of NLB submitted the 2005 Annual Report to the Supervisory Board, including the audited financial statements of NLB, the consolidated financial statements of NLB Group and the auditor's opinions. In the auditor's opinion, the financial statements give a true and fair view of the financial position of NLB and NLB Group as at 31 December 2005 in compliance with the Slovenian Accounting Standards and the International Financial Reporting Standards. It is also established on the basis of a review of the business report that the information contained in the business section of the Annual Report is in compliance with the financial statements of NLB and NLB Group. On the basis of the abovementioned factors, the Supervisory Board approved the 2005 Annual Report. It also supported the Management Board's proposed allocation of net distributable profit, which will be discussed by the General Meeting on 28 June 2006.

Members of the Supervisory Board of NLB establish that the operations of NLB in 2005 were successful since it managed to implement the set goals, i.e. improve the operations and considerably expand NLB Group.



Žiga Lavrič
Chairman of the Supervisory Board

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Business report

Important Events in 2005 and 2006

→ Year 2005

- NLB bought Euromarket banka in Montenegro in April 2005.
- In July 2005, Continental banka, Novi sad from Serbia joined NLB Group.
- Razvojna banka, Banja Luka joined the NLB Group in September 2005.
- Tuzlanska banka in Bosnia and Herzegovina became a NLB Group member in September 2005.
- NLB and Tutunska banka founded a pension company in Macedonia, Nov penziski fond, Skopje.
- Two new leasing companies have been founded: NLB Leasing, Podgorica and Optima Leasing, Zagreb.
- A new representative office of LB Interfinanz was opened in Italy.
- The company NLB Factor, Bratislava started operating in the beginning of the year.
- Prvi faktor, Belgrade has been operating since March 2005.
- New members of the Supervisory Board of NLB have been appointed at the General Meeting of Shareholders held on 29 June 2005.

→ Year 2006

- Merger of Euromarket banka and Montenegrobanka in Montenegro on 1 January 2006.
- Merger of the members of NLB Group LHB Banka, Banja Luka and Razvojna banka, Banja Luka into NLB Razvojna banka, Banja Luka, as at 31 March 2006.
- Activities relating to the acquisition of CBS Bank, Sarajevo by Tuzlanska banka, Tuzla, which are planned to be completed till 30 June 2006.
- Obtaining the approval for the purchase of the majority stake in West East Bank, Sofia, Bulgaria in March.
- The company NLB - Real Estate d.o.o., Beograd was established in March 2006.
- The company Prvi faktor, Sarajevo was established in February 2006.
- Modernisation of the corporate image of NLB Group by introducing new trademark architecture and a new slogan 'I know why'.

The macroeconomic environment in Slovenia

The World Economic Forum (WEF) issued a report on global competitiveness for 2005 and ranked Slovenia in 35th position among 117 countries in terms of its macroeconomic environment, which is 4 places better than the year before. The macroeconomic environment in Slovenia is healthy, something which is vital for the economic growth of any country.

Slovenia joined the exchange rate mechanism ERM II on 28 June 2004. In agreement with the responsible European institutions, a central parity was fixed at the time of joining - a fixed EUR exchange rate (SIT 239.640 for EUR 1) with regard to which stability should be maintained since only fluctuations in the range of 15.0 % are allowed. So far, deviations of the market exchange rates from the central parity have been negligible and have not exceeded 0.15%, which clearly proves that the central exchange rate was properly fixed.

Assuming that the existing macroeconomic policy trends continue and that there are no major external price shocks, it can be expected that the convergence criteria will be met in mid-2006 and the euro will be introduced at the start of 2007. Slovenia has already satisfied the fiscal convergence criteria and the condition as regards the level of interest rates. Since entering the ERM II, the tolar's exchange rate has been

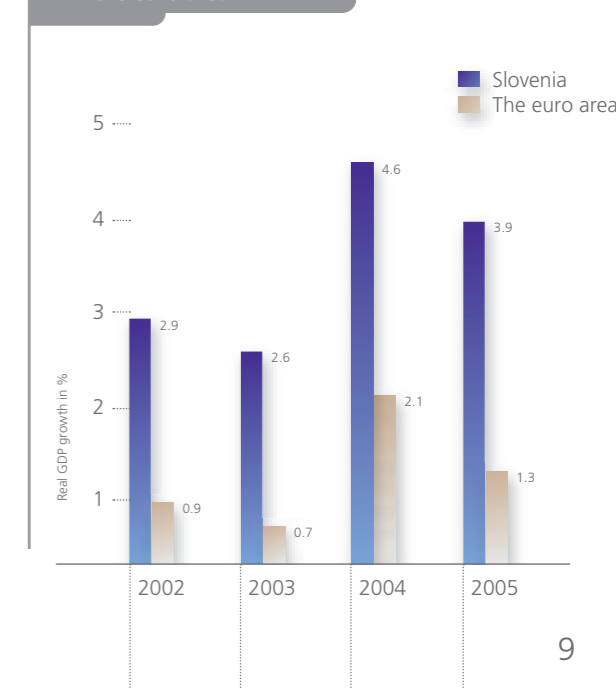
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Business report

Table 1:
→ Meeting the convergence criteria in Slovenia compared to the euro area in 2005

	Convergence criterion	Slovenia	The euro area
Inflation (in %)	2.4	2.5	2.2
Long-term interest rate (in %)	5.5	3.8	3.5
Budget deficit (in % of GDP)	3.0	1.7	2.7
Public debt (in % of GDP)	60.0	29.8	70.8

Picture 4:
→ Economic growth of Slovenia compared to the euro area



fluctuating in a very narrow range around the central parity so that the convergence criterion as regards exchange rate stability will also be met in the reference period. Of the five Maastricht criteria, the only relatively problematic one is the inflation criterion. The risk as regards the anticipated meeting of the Maastricht criterion of price stability mainly involves the new significant growth seen in the prices of oil products.

After the initial low growth in 2005, the dynamics of economic activity in Slovenia consolidated considerably. Economic growth in 2005 thus reached 3.9%, and it is anticipated to stabilise at around 4.0% in the years to follow.

The growth of total assets in the banking system as at the end of 2005 was 23.1%. A good half of the increase in the total assets is accounted for by loans to the non-banking sector. As regards financing, a permanent trend of financing banking activities mainly through foreign banks and only to a small extent through deposits of the non-banking sector has been maintained for some time. The market share of the five largest banks in total assets fell in 2005

to 62.8%, proving that the competition in the Slovenian banking sector is becoming even tougher. Despite the fact that the mild trend of lowering interest margins continued, pre-tax profits in the same period grew by 15.9%. The volume of net interest income rose by 4.9%, with the growth of net non-interest income totalling 16.2%.

The macroeconomic environment in the region

Due to the limited possibilities for further growth and development of the NLB Group in Slovenia, the Bank focused on the markets of South-Eastern Europe. The characteristics of these strategic markets are a less developed economy, less developed banking and lower indicators of confidence in the banking sector. This results in much more limited manoeuvring space for economic growth and the development of financial markets and the banking sector. In 2005, high economic growth continued in the SEE countries and inflation dropped further, while unemployment remained a serious problem despite the downward trend.

Table 2:
→ Key macroeconomic indicators by country in 2005

	Real GDP growth (%)	Inflation (in %)	Unemployment (in %)	Budget deficit/surplus (in % of GDP)
Czech Republic	5.0	1.9	8.0	-3.2
Slovakia	5.6	2.7	16.0	-3.8
Bulgaria	5.5	5.0	10.0	2.4
Bosnia and Herzegovina	6.5	2.9	46.0	0.1
Croatia	3.9	3.3	13.1	-4.5
Serbia and Montenegro	4.6	15.4	18.5	1.2
Macedonia	3.6	0.6	37.5	1.0

Strategy

NLB's vision is to become a leading, highly profitable banking-financial group in the target markets.

NLB Group is the largest banking and financial group in Slovenia. Within the Group, special attention is paid to further expansion of the volume of its operations in the markets of SE Europe, which represent one of the Group's strategic markets. The strategic markets of NLB Group are mainly characterised by rapid economic growth, increasingly developing financial markets and banking.

NLB's medium-term strategic orientations:

Strengthening of the market position:

- maintaining the key market shares in the Slovenian market;
- adjusting the range of products offered to clients to suit their needs and preferences; and
- increasing client satisfaction.

Further development of NLB Group:

- continuing expansion of both existing and new markets, mainly through organic growth and not through acquisitions;
- consolidation of NLB Group;
- development of the operations of subsidiaries; and
- corporate governance development.

Further improvements in financial operations:

- a continuing increase in profitability;
- a further improvement in cost efficiency.

Improvements in the organisational-procedural aspect of operations:

- ensuring the undisturbed and cost efficient transition to the euro;
- the integration and consolidation of IT systems;
- streamlining the business processes;
- human resources restructuring.

NLB Group is focused on the prompt integration of its subsidiaries within the Group, the modernisation of operations, implementation of synergies within the Group, the provision of favourable conditions for the organic growth of existing companies, an increase of the majority stake in subsidiaries and an opportunist approach to additional takeovers or acquisitions as well as consolidation of the Group's operations. By transposing the knowledge, launching innovations in developing new products, introducing new distribution channels and by optimising its business operations, NLB Group aims to raise the number of its clients and, consequently, expand its market share in the selected strategic markets of SE Europe.

The changed saving habits of retail clients together with the increasingly complex demands of corporate clients call for the development of new activities in the field of banking-financial services and the development of new complex financial products. The objective of such a development is to encourage the cross-selling of products in both corporate and retail clients as regards the evolution of banking, asset management, leasing, insurance business as well as factoring and forfeiting. Universality and the provision of the cross-selling of products represent the key starting points of NLB Group's strategic development and marketing, that is why the development and organisation of the financial activities network is organised in such a way as to round off the range of services offered in compliance with the specific local conditions found in individual markets.

Financial review

NLB Group's operations and performance in 2005 are regarded as good since the majority of the Group members improved the results of their operations compared to the previous year and thus achieved the set goals.

NLB Group

In 2005, NLB Group generated SIT 19.7 billion in profit before tax with a minority stake and SIT 11.9 billion of profit after tax, which is 37% more than the year before. This increase in profit was mainly influenced by high growth in interest income and fees.

At the end of the year, NLB Group's total assets reached SIT 2,946.2 billion, which means 24% growth compared to the year before. NLB Group achieved such high growth mainly due to the significantly increased volume of operations. New investments in Euromarket banka, Razvojna banka, Tuzlanska banka and Continental banka contribute to NLB Group balance sheet growth 4 percentage points.

NLB Group's ROE before tax was 13.8% at the end of 2005. The cost/income ratio (CIR) was 66.9%. The increase of this indicator is mainly the result of the one-off effect of writing off intangible long-term assets. Without that write-off, CIR would have stood at 63.9%.

Banking is still the most important activity of NLB Group since 88% of total profit before tax of the NLB Group is generated by banks, 6% by factoring and forfeiting companies and 5% by leasing companies. In the total assets of the NLB Group banks account for 95%, factoring and forfeiting for 3% and leasing for 2%.

NLB Group is active in three key markets: Slovenia, South-Eastern Europe and Western Europe. Even though the SEE market is gaining in importance through the intensive expansion of NLB Group, the lion's share of the Group's profit, i.e. 81%, is still generated by the Slovenian members.

Besides, NLB which, as the parent bank, still accounts for the bulk of Group's performance, the largest banks in terms of total assets are the LHB Frankfurt, Slovenian subsidiary banks, Tutunska banka and LB InterFinanz.

NLB

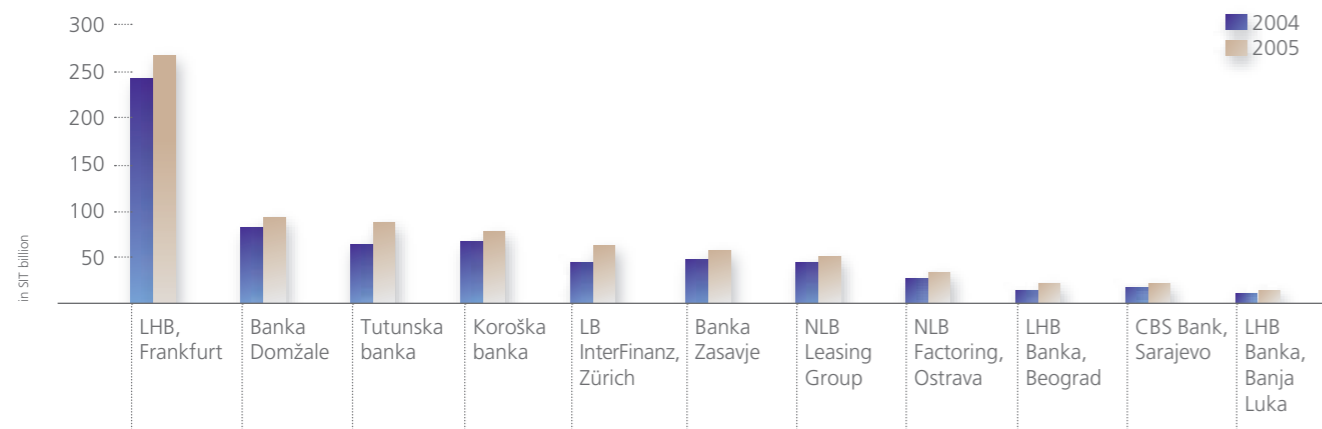
In spite of the aggravated operating conditions which are reflected in serious competition in the banking sector, preparations for Slovenia's forthcoming entry to the EMU and the introduction of the euro as the single European currency, NLB generated a good financial result in 2005, namely SIT 15.0 billion in profit before tax and SIT 11.6 billion of profit after tax, which is 69% more than in 2004.

Profit and Loss Account

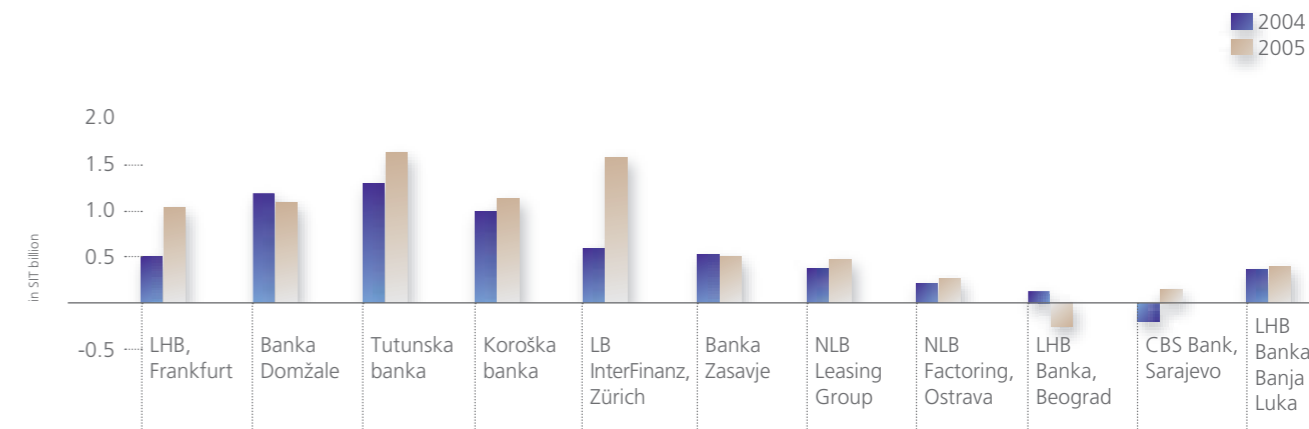
In 2005, the trend of a falling interest margin continued and NLB tried to compensate for this through the considerable 13% growth in interest-bearing assets, achieving 1% more net interest income than in 2004.

In 2005, NLB generated SIT 37.8 billion in net non-interest income. An increase was recorded in income from fees and income from capital investments. The reduced income from financial operations is mainly

Picture 5:
→ Balance sheet of main NLB Group members (under SAS)



Picture 6:
→ Net profit of main NLB Group members (under SAS)



the result of unfavourable developments in the securities market.

NLB continued with its programme of streamlining operations and cost management. In 2005, costs totalled SIT 51 billion or 7% more than in 2004; nevertheless, the increase was mainly due to one-off costs arising from writing off long-term assets in the amount of SIT 3.46 billion. If we leave out these write-

In spite of the aggravated operating conditions which are reflected in serious competition in the banking sector, preparations for Slovenia's forthcoming entry to the EMU and the introduction of the euro as the single European currency, NLB generated a good financial result in 2005, namely SIT 15.0 billion in profit before tax and SIT 11.6 billion of profit after tax, which is 69% more than in 2004.

off, costs would have dropped by SIT 0.3 billion compared to 2004.

In 2005, NLB allocated SIT 9.8 billion to additional provisions. Due to the local legislation provisions for credit risk formed according to the SAS are 4.3 billion tolar higher compared to this provisions formed in accordance with the IFRS.

Table 3:
→ Key profit and loss account items (under SAS)

	NLB Group			NLB		
	2005			2005		
In million SIT	SIT	EUR	Index of growth	SIT	EUR	Index of growth
Net interest income	64 559	269	110	38 147	159	101
Income from capital investments	7 478	31	98	10 821	45	119
Net fees and commissions	35 100	147	119	22 940	96	109
Income from financial transactions	8 133	34	81	3 312	14	47
Net other income	1 430	6	56	703	3	83
Total net income	116 700	487	108	75 922	317	100
Total costs	78 062	326	111	51 087	213	107
Net provisions	18 891	79	99	9 815	41	69
Profit before tax	19 747	82	103	15 021	63	109
Tax on profit	5 687	24	61	3 387	14	49
Minority interest	2 147	9	177	/	/	/
Net profit	11 913	50	137	11 634	49	169

Balance sheet

Total assets grew by 20% and totalled SIT 2,231,3 billion in 2005. As a result of the existing market situation characterised by favourable economic conditions, low interest rates and growing demand, high growth was recorded in loans granted to the non-banking sector (up by 27%) which reached SIT 1,140.2 billion. The highest growth was recorded in FX loans which accounted for 59% in the currency structure of loans to the non-banking sector and corporate loans which grew by 28%, reaching 74% of the relevant structure.

Deposits by the non-banking sector totalled SIT 1,221.8 billion or 3% more than in 2004. Total growth was primarily stimulated by deposits placed by households which rose by SIT 29.5 billion and represented 71% of total deposits placed by the non-banking sector.

Alternative savings products are slowly redirecting investors to other investments in the scope of NLB Group. Investments in NLB Skladi and NLB Vita thus rose by SIT 20.7 billion in 2005.

The Bank's investment activity was financed by raising new funds in the

The highest growth was recorded in FX loans which accounted for 59% in the currency structure of loans to the non-banking sector and corporate loans which grew by 28%, reaching 74% of the relevant structure.

international market. Thus, deposits placed and loans raised with banks grew by 89% and totalled SIT 596.8 billion at the end of the year.

Table 4:
→ Key balance sheet items (under SAS)

	NLB Group				NLB			
	2005		2005		2005		2005	
In million SIT	SIT	EUR	Index of growth	% share in	SIT	EUR	Index of growth	% share in
Balance sheet	2 946 206	12 298	124	/	2 231 301	9 314	120	/
Loans to banks	220 957	922	128	7.5	217 950	910	115	9.8
Loans to non-banking sector	1 632 011	6 812	131	55.4	1 140 207	4 759	127	51.1
Securities	788 440	3 291	108	26.8	631 352	2 635	108	28.3
Deposits and borrowings from banks	823 334	3 437	170	27.9	596 775	2 491	189	26.7
Deposits and borrowings from non-banking sector	1 660 236	6 930	113	56.4	1 221 793	5 100	103	54.8
Debt securities	93 516	390	98	3.2	99 928	417	105	4.5
Subordinated liabilities	103 715	433	142	3.5	104 323	435	143	4.7
Total Equity	126 804	529	108	4.3	130 520	545	108	5.8
Total Equity (including minority interest)	148 863	621	108	5.1	/	/	/	/

Table 5:
→ Reconciliation of net profit from SAS to IFRS

in million SIT	NLB Group		NLB	
	SIT	EUR	SIT	EUR
Net profit SAS	11 913	50	11 634	49
Provisions for loan impairment	5 483	23	4 300	18
Fair value of financial instruments	-2 101	-9	-2 290	-10
Provisions for general and non-bank risks	-456	-2	0	0
Depreciation negative goodwill/goodwill	1 736	7	-215	-1
Other	592	2	-1 592	-7
Deferred tax	-194	-1	-434	-2
Net profit IFRS	16 973	71	11 403	48

Capital and capital adequacy

Expansion of NLB Group and rapid growth in the volume of operations are the key activities of NLB that contributed to the increase in capital requirements. To meet the higher demand for capital, the Bank issued bonds in the form of innovative instruments in the amount of SIT 31 billion in July. Thus the capital required for managing risks reached SIT 137 billion at the end of 2005, while capital adequacy was above the regulatory requirement of the Bank of Slovenia, namely 10.16%.

A photograph of two business professionals running through a city street. They are carrying briefcases and are slightly out of focus, suggesting motion. The background shows modern buildings and a clear blue sky. A purple rectangular box is overlaid on the right side of the image.

NLB
Group

Seeking new opportunities

Small opportunities develop into big victories.

Because you have a taste for freshness.
Because you have a feeling for details.
Because you have the courage to decide.
Because you dare to take the risk.
Because you always break the limits.

I know why

NLB Group

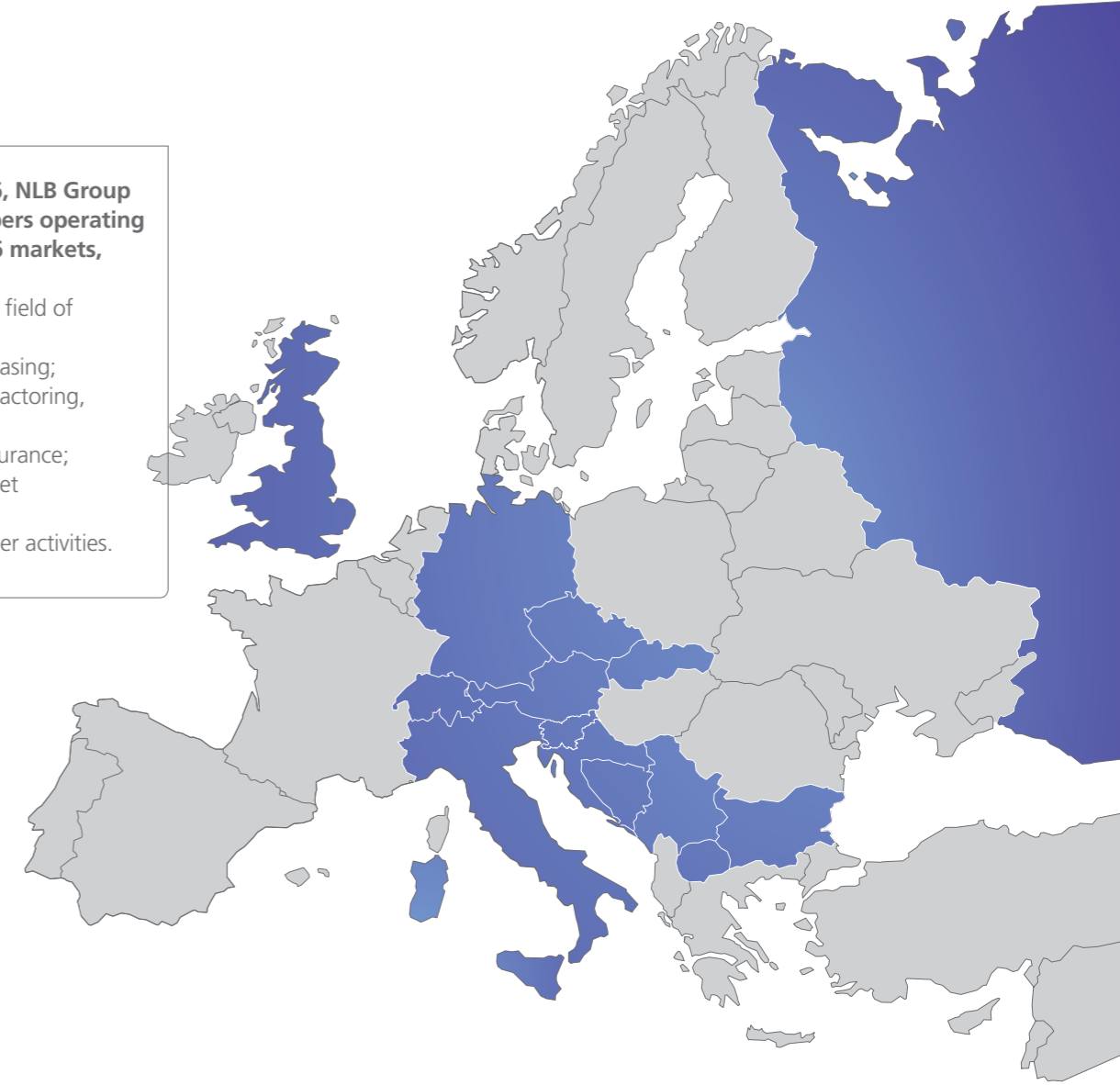
Today, NLB Group represents the largest banking-financial group in Slovenia, addressing an overall population of 35 million people.

Besides holding a considerable share of the Slovenian market, it is present in EU markets (Germany, Austria, Italy, Czech Republic, Slovakia, Great Britain), SE Europe markets (Serbia and Montenegro, Bosnia and Herzegovina, Macedonia, Croatia, Bulgaria and Russia), where it has gained a significant presence in recent years. In addition to the domestic Slovenian market, the SE Europe markets are becoming increasingly important to NLB Group, hence their name "second domestic market". Accordingly, NLB Group in both the Slovenian and second domestic markets is addressing an overall population of 35 million people.

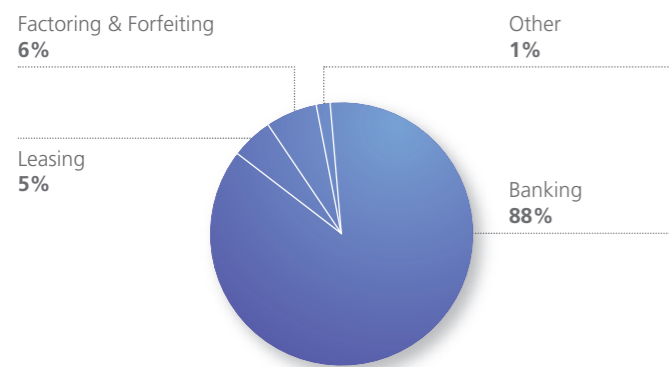
Banking is the most important activity within NLB Group. However, the position of non-traditional banking activities such as leasing, factoring, forfeiting, insurance and asset management has recently increased significantly.

As at 31 March 2006, NLB Group comprised 58 members operating in 14 countries or 16 markets, of which:

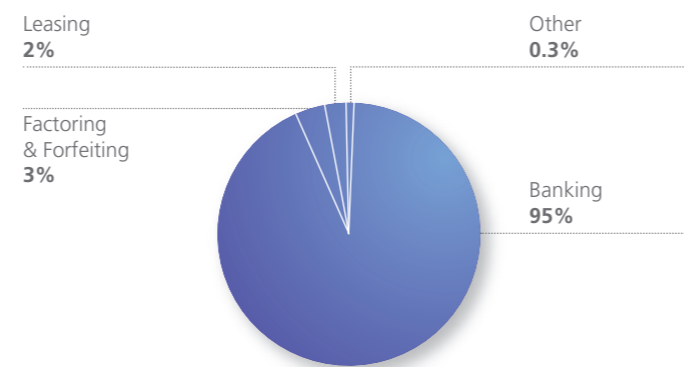
- 16 members in the field of banking;
- 11 in the field of leasing;
- 10 in the fields of factoring, forfeiting;
- 3 in the field of insurance;
- 2 in the field of asset management; and
- 16 members in other activities.



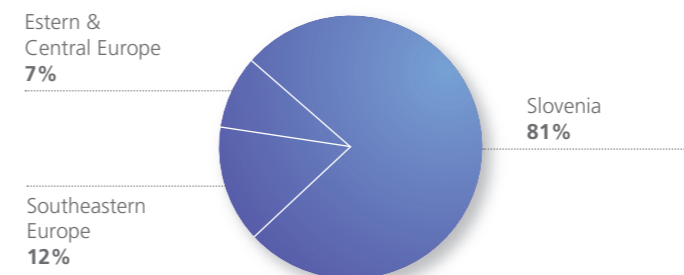
Picture 7:
→ NLB Group's profit before tax structure by activities in 2005



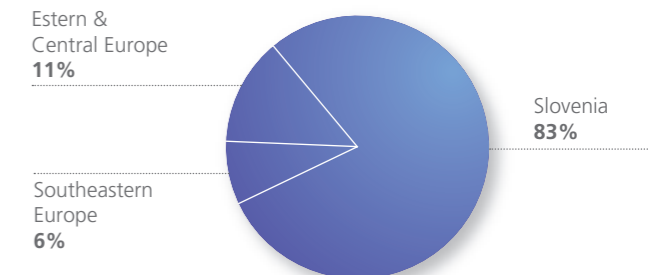
Picture 8:
→ NLB Group's Balance sheet structure by activities as at December 31, 2005



Picture 9:
→ NLB Group's profit before tax geographical structure in 2005



Picture 10:
→ NLB Group's Balance sheet geographical structure as at December 31, 2005



In 2005, NLB Group maintained the trend of intense growth, in particular in what is termed the second domestic market, where the following banks were acquired in 2005:

- Euromarket banka, Podgorica, Serbia and Montenegro;
- Continental banka, Novi Sad, Serbia and Montenegro;
- Tuzlanska banka, Tuzla, Bosnia and Herzegovina - Federation; and
- Razvojna banka, Banja Luka, Bosnia and Herzegovina - Republic of Srpska.

If these acquisitions are included, NLB Group has recorded market shares (in terms of the share in total assets) in both the Slovenian and second domestic markets, as presented in picture 11.

2005 saw the incorporation of Nov penziski fond, Skopje, which will provide services in Macedonia relating to the second pillar of pension insurance. As regards leasing, the companies NLB Leasing in Podgorica and Optima Leasing in Zagreb were set up in 2005.

NLB Group has developed an efficient corporate governance system, which is being implemented through:

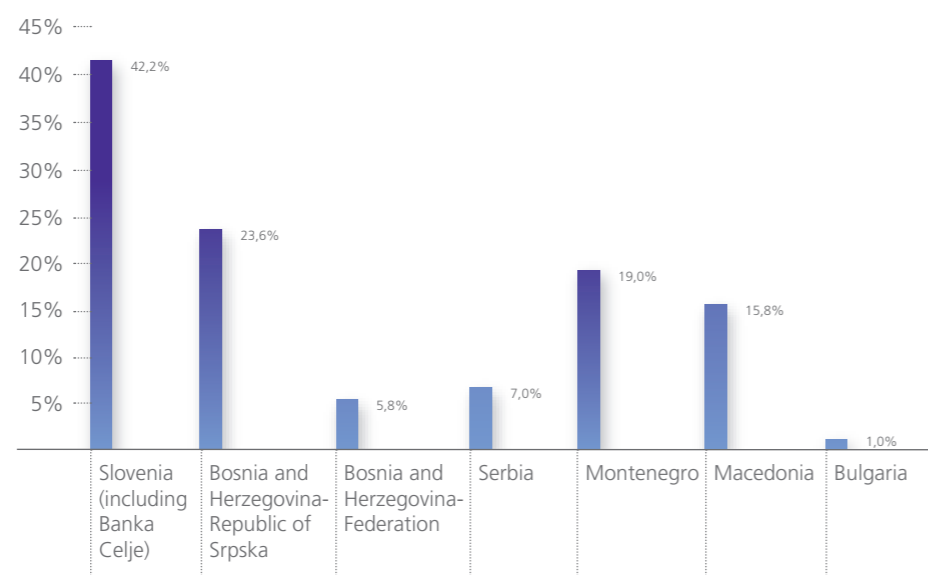
- management and supervisory bodies,

through which the Management Board and those employed by NLB actively participate in the management and supervision of members of NLB Group;

- a strategic conference at which all NLB Group members are present, dealing with priorities for the Group's development;
- regional committees of NLB Group where all Group members in an individual country attend to discuss and harmonise the Group's development priorities in individual markets; and
- business line governance where development priorities in terms of individual business lines within NLB Group are discussed (banks, leasing, insurance, factoring, forfeiting, asset management).

Based on its 2006 vision, NLB Group will continue implementing its strategy. In addition to banking, other non-traditional banking activities are gaining ground; accordingly, our presence in the areas of leasing, trade finance, insurance and asset management in both Slovenia and abroad in 2006 will be further consolidated.

Picture 11:
→ NLB Group's market share in key markets



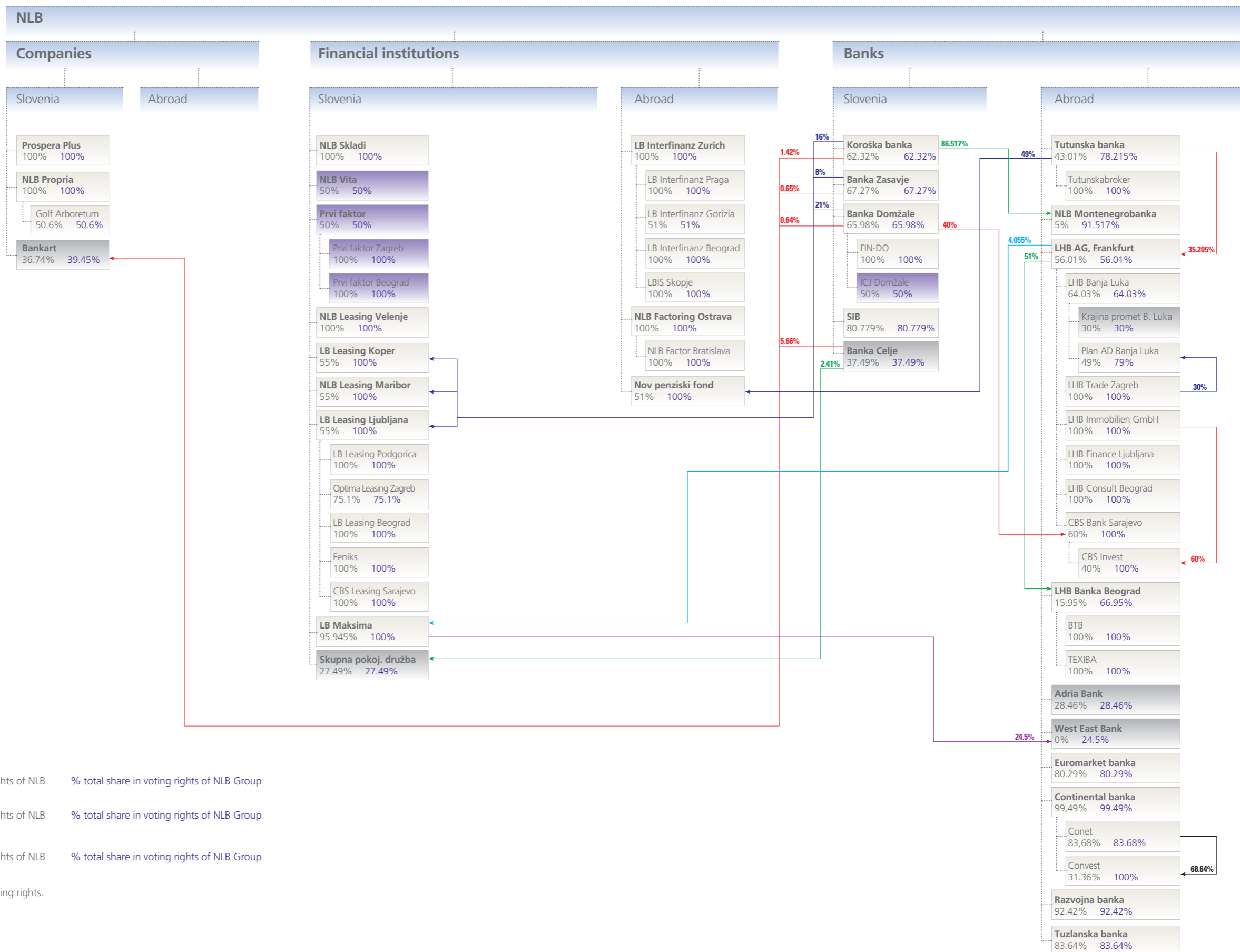
Matrix of activities of NLB Group members by country as at March 31, 2006

	Banks	Leasing	Factoring & Forfeiting	Life and pension insurance	Asset management	Other activities	
Southeastern Europe	Slovenia	NLB, Ljubljana; Koroška banka, Slovenj Gradec; Banka Zasavje, Trbovlje; Banka Domžale; Banka Celje; SIB Ljubljana in liquidation	NLB Leasing Ljubljana; NLB Leasing Koper; NLB Leasing Maribor; NLB Leasing Velenje; NLB Leasing Murska Sobota	Prvi faktor, Ljubljana; LHB Finance, Ljubljana	NLB Vita, Ljubljana; Skupna pokojninska družba, Ljubljana	NLB Skladi, Ljubljana; LB Maksima, Ljubljana	Prospera Plus, Ljubljana; NLB Propria, Ljubljana; Bankart, Ljubljana; FIN-DO, Domžale; ICJ Domžale
	Bulgaria	West East Bank, Sofia					
	Bosnia and Herzegovina	CBS Bank, Sarajevo; NLB Razvojna banka, Banja Luka; Tuzlanska banka, Tuzla	CBS Leasing, Sarajevo	Prvi faktor, Sarajevo			Krajina promet, Banja Luka; Plan, Banja Luka; CBS Invest, Sarajevo in liquidation
	Croatia		Optima Leasing, Zagreb; LHB Trade, Zagreb	Prvi faktor, Zagreb			
	Macedonia	Tutunska banka, Skopje	LBIS, Skopje		Nov penziski fond, Skopje		Tutunskabroker, Skopje
Western and Central Europe	Serbia and Montenegro	NLB Montenegrobanka, Podgorica; LHB Banka Beograd; Continental banka, Novi Sad;	NLB Leasing Beograd; NLB Leasing Podgorica	LB InterFinanz, Belgrade; Prvi faktor, Belgrade		Conet, Novi Sad; Convest, Novi Sad; LHB Consult, Belgrade; TEXIBA Belgrade; BTB Belgrade NLB - Real Estate, Belgrade	
	Austria	Adria Bank, Vienna					
	Czech Republic			LB InterFinanz, Praga; NLB Factoring, Ostrava			
	Italy	NLB Branch Trieste					
	Germany	LHB Internationale Handelsbank, Frankfurt - Main					LHB Immobilien, Frankfurt - Main
	Slovakia			NLB Factor, Bratislava			
	Switzerland				LB InterFinanz, Zürich		

Notes:

- As at January 1, 2006 Euromarket banka merged with NLB Montenegro banka, Podgorica
- The company LB Interfinanz, Gorizia was deleted from the Companies Register on 17 February 2006.
- Golf Arboretum was sold on 23 February 2006.
- As at March 31, 2006, Razvojna banka a.d., Banja Luka merged with LHB banka a.d., Banja Luka. The name of the new bank is NLB Razvojna banka a.d., Banja Luka.

→ Chart of
NLB Group as at
31. December, 2005



A photograph of a man and a woman reaching for a soccer ball against a bright blue sky. The man is on the left, shirtless, and the woman is on the right, wearing a red bikini top. They are both looking up at the ball, which is held between their hands. The background is a clear, bright blue sky with some light clouds.

Operations
analysis

Partnership relations

Happiness consists of small things.

Because you know how to listen to me.
Because you understand me.
Because I can trust you.
Because I can rely on you.
Because you are someone who will always be there for me.

I know why

Branch Network

NLB branch network in Slovenia comprises 152 branches and a total of 220 units, together with the banks in the Group, for almost 1,100,000 clients. Its modern distribution channels are used by approximately one third of the clients. The majority of daily financial transactions are carried out through two electronic banking channels, namely Klik NLB (for retail clients) and Proklik NLB (for corporate clients). NLB branch network is constantly improving access to the specialised financial services of its group members for its clients: asset management by NLB Skladi, bancassurance services by NLB Vita, pension insurance by Skupna pokojninska družba etc.

Retail banking

Personal banking

In 2005, the number of NLB clients in the area of personal banking grew by more than 64%. As many as 6% of retail clients use personal banking services. Adequately trained personal bankers provide the required services and high-level expert advice with respect to complex transactions for more demanding and wealthier clients. Clients using personal banking services are offered the so-called "golden" range to which tolar and euro deposits were added in 2005. The above-average use of such services (five services per client or twice as many as with mass market clients) confirms the clients' satisfaction with the provision of such personal banking services.

Private banking

The number of clients using private banking services rose by more than 80% in 2005. On average, private banking clients use more than eight services. Private banking services are provided for the most demanding and the wealthiest clients. They guarantee safe, modern, discrete and comfortable operations based on extensive and complex knowledge, experience and the excellent business relations of NLB at home and abroad. The range includes first-class banking services and treatment, quality asset management, tax and real-estate advisory services, planning of financial futures in accordance with the needs and wishes of individual clients.

Special services for the young and for seniors

NLB offers three different types of accounts to the young, adapted to their needs at various ages (**Toli account**, **First account** and **Student account**). No fees are charged for managing

accounts intended for the young; besides that, the Bank also offers more favourable terms for taking out loans or placing deposits for the young. In 2005, NLB expanded its range of products and services for the young by including the student loan, a savings account for the young and a payment card for minors. It sponsored and supported various cultural, sports and other activities for the young. Seniors are offered the **Silver account** with a reduced management fee as well as some other benefits.

In 2005, NLB introduced a special group for sales support. This group of highly trained personnel provides on-the-job support to sales personnel in the sales network with the aim of enhancing the proactive approach to improving the sales efficiency of all branch network employees.

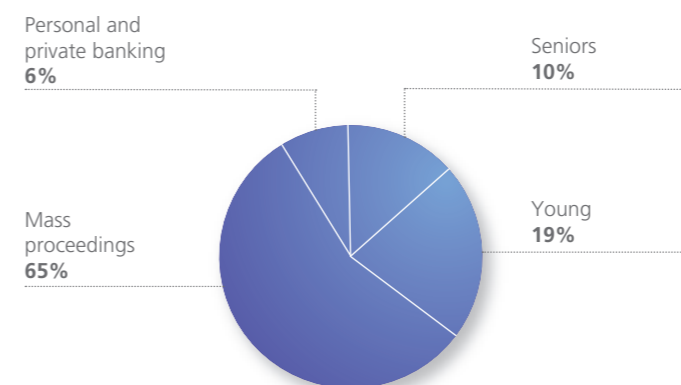
In the scope of the new **Front-End Application Project**, the first pilot

version of the solution was introduced at the end of the year, including all financial transactions. Its introduction to all branches and other banks of NLB Group will be concluded by 30 June 2006 and we will be able to drop the old technology afterwards.

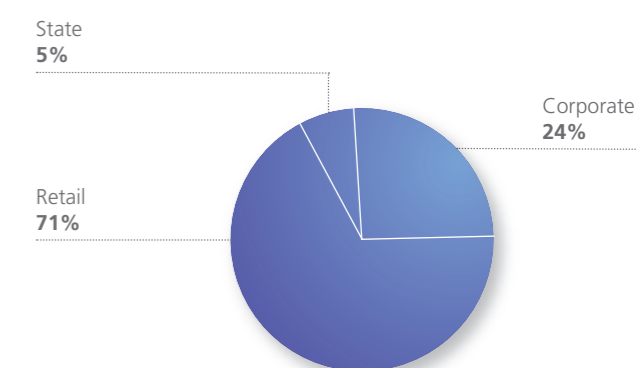
Comprehensive financial advice

In 2005, NLB Group supplemented its range with the **new multi-currency savings account**, the **euro deposit for 5**, the **golden deposit** in tolar and euros, three funds (NLB Skladi - **Dynamic equity fund**, **NLB Skladi - European Equity Fund** and **Fund Partners NLB Skladi - Guarantee Fund Europe 1**) and five unit-linked life insurance products (**NLB Investments Vita 7-11**). Specially skilled advisors in NLB branch network provide comprehensive advice on the range of products and services offered by NLB Group to investors. They are offered a wide range of traditional bank deposits and savings, mutual and other investment

Picture 12:
→ Structure of NLB retail customers



Picture 13:
→ NLB customer deposit structure in 2005



NLB is a leading Slovenian bank. It holds the largest market shares in the area of retail personal accounts, i.e. 33.7 % and business accounts, i.e. 32.5 %. Together with the banks in the Group, NLB holds 47.7 % of all retail personal accounts and 46.9 % of business accounts in Slovenia.

funds, bancassurance services, brokerage and other products and services offered by other group members. Integral cross-marketing within NLB Group increases NLB's income and keeps business within the Group. The deposits collected are an important source that can be used for financing loans in the branch network and in NLB's specialised centres for large companies.

Loans

In retail loans, NLB branch network recorded a more than 24% increase in 2005 compared to 2004 in spite of the growing competitiveness of other financial institutions. This was most strongly influenced by changed characteristics of loans tailored to customers' needs, successful marketing with efficient promotion campaigns and the adaptation of interest rates. In real-estate loans, the biggest increase was

noted in the share of mortgage loans. More and more clients tend to take out life insurances as well, when raising loans with long-term maturities and high amounts. With the introduction of the new product "BanKredit" NLB provided an alternative to buying on deferred terms with merchants.

Card operations

The share of NLB's debit cards of all cards issued in Slovenia is around 35%. NLB offers a wide range of debit cards (domestic, licensed; with immediate or deferred payment, payment in instalments, personal, business, family). In 2005, 39 million transactions were performed using NLB's cards. Of the total of 1.17 million cards, debit cards are still the most popular; nevertheless, an upward trend was noticed in the last year in new holders of credit cards enabling payment by instalments or deferred payment. In 2005, the number of golden MasterCard grew by 32%. A series of added-value services was offered to the holders of golden MasterCard in 2005 in the form of discounts at selected points of sale. Compared to 2004, card transactions rose by a good 6%.

How to get to the Bank

NLB's electronic and telephone banking

services for retail clients are used by 226,000 account holders. In 2005, NLB continued optimising its traditional branch network and oriented its clients to performing transactions through modern distribution channels. These

As regards corporate and entrepreneurs' deposits, NLB branch office recorded a 13% increase, which is above the average of the Slovenian banking sector, thanks to its competitive products and services.

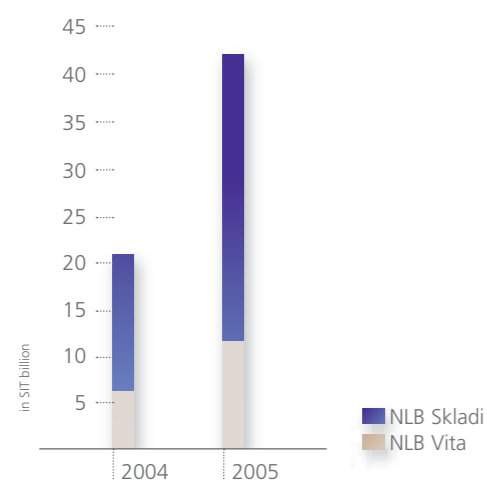
channels enable quick and permanent access to products and services and ensure a reduction in the volume of manual branch network transactions so that 80% of external financial transaction in domestic payment system in NLB are performed through electronic distribution channels. The volume of services, orders and information available via modern distribution channels is increasing on a yearly basis. In 2005, the electronic banking service Klik NLB was upgraded by a multi-currency savings account and international transactions and **Teledom NLB** now also enables the ordering of loans, cards and **Klik NLB**. NLB's clients can also perform transactions via their mobile phones - **Moba NLB**. In electronic

banking, NLB is also connected with its corporate and other clients with the aim of facilitating their operations (electronic income tax return or "e-dohodnina", e-payments through companies' websites).

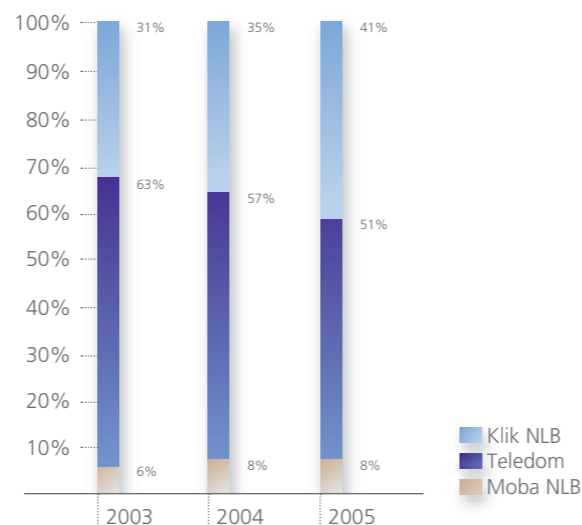
In the area of pricing policy and marketing campaigns, 2005 was characterised by promoting the use of electronic banking services which resulted in a considerable increase in the number of users of these services: the number of Klik NLB users grew by 38% in 2005, while the number of clients using mobile phone services (Moba NLB) rose by 13% and those using Teledom telephone banking by 7%.

NLB Web Portal **www.nlb.si** offers the Bank's retail and corporate clients comprehensive information about the range of products and services offered by NLB Group at home and abroad. More than 320,000 people visit this portal each month and more than 200,000 informative calculations are made. Clients can also ask for information such as the balance of their accounts via SMS messages or they can call the automatic answering machine or use ATMs. NLB Group holds a 51% market share in Slovenia in the field of ATMs.

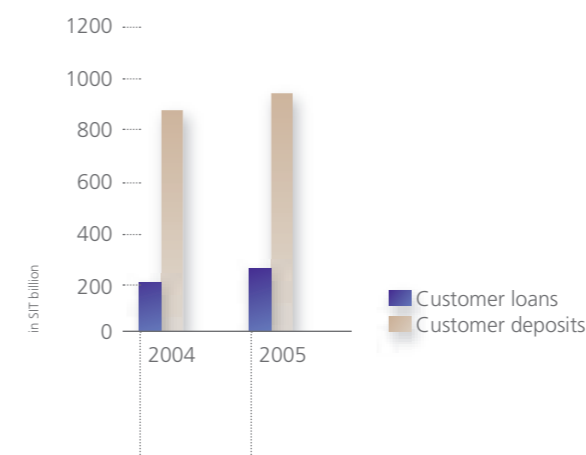
Picture 14: → Retail funds in asset management and bancassurance



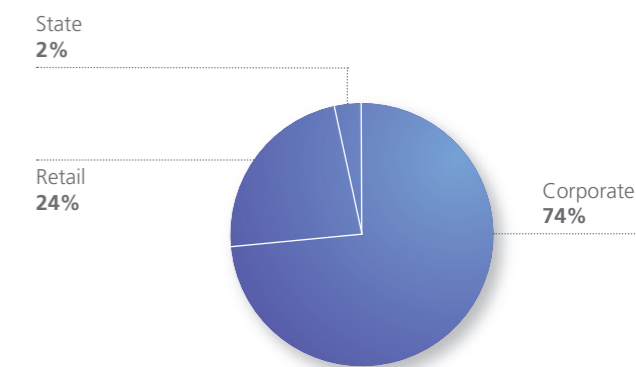
Picture 15: → Structure of modern distribution channel users



Picture 16: → NLB retail customer loans and deposits



Picture 17: → NLB customer loans structure in 2005



Banking with SMEs

The volume of loans extended to SMEs and sole proprietors through the Bank's branch network grew by around 20% in 2005. The emphasis was on the promotion of long-term loans and loans funded by the EIB. In 2005, FX loans were more popular among the Bank's clients. In the last two years, NLB has established 17 specialised branches for SMEs which cover the entire territory of Slovenia. Each of the specialised bank employees - custodians of companies and sole

As regards corporate and entrepreneurs' deposits, NLB branch office recorded a 13% increase, which is above the average of the Slovenian banking sector, thanks to its competitive products and services.

proprietors - focuses every day on their own portfolio of clients which enables them to recognise all the financial needs of their clients in their direct daily contacts with the clients. As regards corporate and entrepreneurs' deposits, the NLB branch office recorded a 13% increase, which is above the average of the Slovenian banking sector, thanks to its competitive products and services. The range of traditional banking services is complemented by the wide range offered by NLB Group. More and more often clients are placing their assets in non-traditional banking services.

In the area of business cards, NLB focused on increasing the number of users. Growth of 47% was recorded in the number of business MasterCard holders. In 2005, NLB introduced the option of insuring against the abuse of stolen and lost business cards.

The **Proklik NLB** electronic banking service is used by corporate clients; it guarantees less expensive, safe, quick, transparent, efficient and simple operations, especially payment transactions, to more than 25,600 account holders. In 2005, Proklik NLB was upgraded by a new modern service - client account cash management, which enables insight and control over the financial operations of associated companies at home and abroad. Proklik NLB also supports the execution of electronic transactions with "eUprava", the Tax Administration of the Republic of Slovenia (TARS), Intrastat, the Agency of the Republic of Slovenia for Public Records and Services and "eDavki". As many as 49% of business account holders use Proklik NLB; they perform more than 80% of their monthly transactions through this channel. In 2005, the Bank redirected the users of Proklik plus NLB to Proklik NLB which combines all the functionalities of both and thus successfully reduced costs.

By adapting its prices, products and services, NLB ensures that the loans raised by its clients for different purposes are competitive. Also in 2005, NLB started creating special offers for different segments of companies. One of our priorities is marketing the comprehensive range of products and services provided by the Group.

Corporate banking

In 2005, the banking sector was again characterised by fierce competition, especially from foreign banks. The trend of reducing interest rates on loans with the aim of increasing the Bank's market share continued.

In spite of the tough competition in the area of banking with large companies, the Bank managed to maintain a stable corporate portfolio which shows its ability to adapt to the ever changing environment.

Its adaptability is reflected in its increased sensitivity to the needs of clients and the proactive marketing of banking and other financial services with the aim of providing a comprehensive range of products and services to Slovenian companies on competitive terms and conditions. The diversified range comprises services such as consulting, preparing and executing individual deals which involve several services from lending, the arrangement of syndicated loans, project finance as well as more complex services offered in co-operation with other organisational parts of the Bank (e.g. financing of acquisitions and the issue of securities).

In recent years, the Bank has developed a custody system for clients in corporate banking which enables comprehensive treatment and the provision of services and products customised to the needs of clients and with an emphasis on quality. The Bank is also intensively expanding its co-operation with members of NLB Group and creating synergy inside NLB Group by directing potential clients according to their needs and wishes. Clients are thus informed of all financial services offered by members of NLB Group. Enhanced investments by companies and the resulting greater demand for long-term sources of funding were reflected in the faster growth of long-term corporate loans. The demand of corporate clients for FX loans was even greater which caused a change in the currency structure of loans. This reflects the gap between

Picture 18:
→ NLB corporate
loans and deposits



the tolar and the euro interest rates for foreign-currency investments and in particular shows that the Slovenian "corporate minds" have already adopted the euro as their currency.

The Bank's major projects involved clients from the trade, food-processing, construction, tourism and telecommunications sectors. There were also quite a few cases of financing leasing activities and share redemptions. In line with its strategy, NLB was also active through its group members in offering support to Slovenian companies seeking to penetrate foreign markets. The most successful co-operation was recorded in Bosnia and Herzegovina, Serbia and Montenegro and Macedonia where several important projects were implemented in the trade, tourism, metal-processing and food-processing industries.

With successful cross-marketing of corporate services, NLB Group takes advantage of the synergy effects inside the Group members, which represents a significant corporate advantage over the competitors on the domestic and foreign markets. In 2005, the Bank also complemented its range of cash asset management services in the scope of

developing financial services with higher added value by adding a new service of zero-balancing of assets between the company's and the group's tolar accounts, opened with NLB with the related automatic overnight deposit service.

Upon Slovenia's entry to the EU our companies were given the opportunity to win non-redeemable sources of financing from structural funds. This is why NLB Group was actively participating in the drawing of funds from the EU budget with the aim of firming up its position as a leading Slovenian or even regional financial institution in the area of providing non-redeemable EU funds. In the field of advisory services, the Bank organises and manages the procedures of applying to tenders and the reimbursement of funds and produces opinions on the economic viability of projects.

In 2006, which is the last year before introduction of the euro, the Bank expects more aggressive actions by economic operators in markets which will improve the competitiveness of the entire economy. These circumstances provide a great opportunity for strengthening NLB Group's role in the area of providing support to Slovenian and foreign economies.

Financial markets

In 2005, the Bank organised and carried out two major issues of corporate bonds in the Slovenian capital market with a total nominal value of SIT 24.4 billion. In the primary market of Slovenian bonds, NLB issued three series of bonds in 2005, namely NLB17, NLB18 and NLB19 in a total nominal value of SIT 35.2 billion.

Organisation and issue of corporate bonds

In 2005, the Bank organised and carried out two major issues of corporate bonds in the Slovenian capital market. With the purpose of financing the construction of motorways in the Republic of Slovenia, it organised the issue of 15-year bonds with a nominal value of SIT 14.8 billion. This is the second issue of bonds issued for the needs of financing the motorway construction programme. Besides that, the Bank organised the issue of 10-year bonds of financial holding in a total nominal value of SIT 9.6 billion for refinancing all existing credit liabilities of the issuer to the banks which burdened its assets and for financing current operations. The bank sold both bonds in the initial offering with a mandatory buyout and thus guaranteed the issuer the success of the issue, i.e. it assumed the risk arising from the sales of bonds in the market. When the issue was completed, the Bank carried out all the necessary activities for the admission of bonds to the organised market of the Ljubljana Stock Exchange.

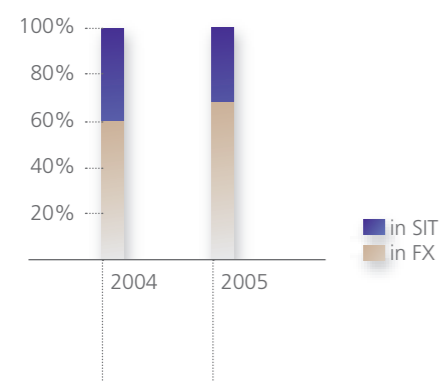
NLB bond issue

NLB has been issuing bonds every year since 2000 with the aim of improving its asset structure and balancing the maturity of its assets and liabilities as well as promoting its presence in the primary bonds market in Slovenia; it issued three series of bonds in 2005, namely **NLB17, NLB18 and NLB19** in a total nominal value of SIT 35.2 billion. Bonds were issued in a non-public offering and admitted to the organised market of the Ljubljana Stock Exchange.

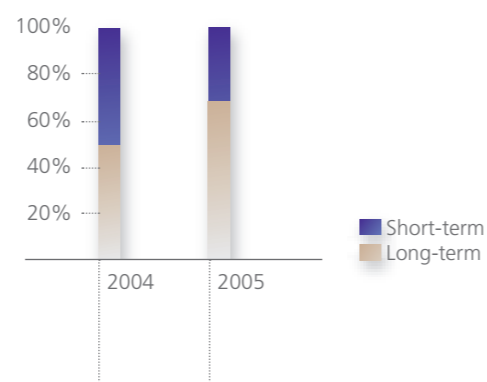
Dealing in securities

NLB generated turnover in the amount of 166 billion tolar at the Ljubljana Stock

Picture 19:
→ Growth of NLB customer loans in FX



Picture 20:
→ Term structure of NLB customer loans



Exchange and ranked first among the stock exchange members for the second consecutive year. The SBI20 index which shows the movements in the prices of shares on the Slovenian capital market witnessed a 7.37% drop in 2005, unlike the indices of the developed stock exchanges in the Western Europe, which recorded approximately 20 percent growth.

The reason for the fall in the index is above all the reduced investments of large institutional investors in the domestic market, e.g. by mutual funds, funds of parastatal agencies etc. which are placing most of their assets abroad. Despite the low deposit interest rates, there was no major shift in the area of savings in securities by retail clients. The reason for such a negative effect of savings in securities also lies with the amended tax legislation.

Some changes were also recorded in trading. The TUVL segment was introduced (trading through official market makers) for certain government bonds and auction-type trading for some less liquid securities. In 2006, we expect a further slowdown in developments in the domestic market, especially because

of the poorer liquidity and quite high prices of securities. Greater interest in the domestic capital market could stimulate the admission of non-listed securities, most of which are state-owned. Increased investments are expected in foreign markets, also due to the more friendly tax legislation in the area of capital gains taxation.

Custody services

The trend of the growing volume of assets in custody continued last year in both the area of custody services for securities dealing in domestic and foreign markets as well as in the area of investment funds. In 2005, custody services were also introduced to the area of mutual funds while an upswing in the area of pension funds is expected in 2006.

Notwithstanding the unfavourable tax environment last year, Slovenian investors are showing growing interest in doing business in developed and developing foreign markets. Next year, further growth is expected in the volume of assets in custody, also in the area of investment funds, as management companies will launch new investment funds with the aim of attracting new investors and fresh capital.

Asset management

NLB has been offering the service of individual asset management for years; in 2005, the range was complemented significantly and the range of portfolios was expanded. The more than SIT 22 billion of clients' assets in individual management places the Bank in first place among Slovenian providers with an almost 30% market share among Slovenian banks and stock-broking companies. Besides the securities of Slovenian issuers, we also manage clients' assets in all major global capital markets so that, in terms of value, investments in foreign securities have considerably exceeded investments made in Slovenia, in terms of value.

amount of SIT 15.4 billion, carried out on behalf of and for the account of a client.

Borrowing on its own behalf and for the account of others

Together with the banks of NLB Group and other Slovenian banks, NLB organised several important transactions for large Slovenian companies in 2005. For NLB, the organisation of syndicated loans is an important source of non-interest income. The total value of syndicated loans in 2005, in which NLB also participated as an agent, exceeded SIT 46 billion, of which SIT 16 billion involved extended special-purpose loans for refinancing existing credit liabilities (especially in transport infrastructure). All syndicated loans were extended in euros.

Trading with clients

In trading with clients, the number of deals exceeded 10,000. The relatively low interest rates created a suitable environment for the introduction of deposit FX investment products which NLB started preparing as additional offer for strategic clients. Co-operation with the Ministry of Finance in deposit and credit operations was carried out through the ministry's auctions at which NLB participated regularly.

Currency trading

NLB executed around 13,000 conversions in a total value of € 10 billion in 2005. The lion's share of those deals was made in the most important global currencies including the American dollar, the British pound sterling, the Swiss franc and the Japanese yen. Besides foreign currencies, clients are becoming ever more interested in trading in the currencies of former Yugoslav republics such as the Serbian dinar, the Bosnian convertible mark and the Macedonian denar. In spite of the quite insignificant movement of the €/SIT exchange rate, a turnover of € 1.5 billion was generated through trade in the domestic currency.

The Bank carried out and financed three acquisitions, two of which were public bids for the purchase of shares in a total amount of SIT 15.4 billion carried out on behalf of and for the account of a client. The total value of syndicated loans in 2005 in which NLB also participated as an agent exceeded SIT 46 billion.

The favourable situation in foreign capital markets, an appropriate approach to asset management and growing client trust are the key factors that have boosted the volume of managed assets in recent times. In 2005, these grew by a good 23% while the average value of a client's assets in management increased by 33.8%. NLB earned 38% more income from this service compared to the previous year. Dynamic growth in operations is also foreseen for the future, when we plan to continue with our efforts to improve the cost efficiency of the service for clients as well as the required profitability for the Bank.

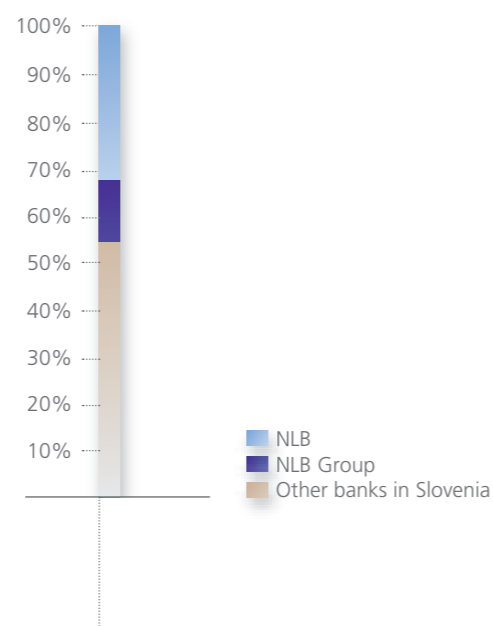
Acquisitions

In 2005, NLB continued with its activity of organising acquisitions and purchases of companies for its clients. The Bank carried out and financed three acquisitions, two of which were public bids for the purchase of shares in a total

Picture 21:
→ Asset management growth in NLB



Picture 22:
→ Organisation of syndicated loans for Slovenian companies in 2005



NLB generated turnover in the amount of 166 billion tolar at the Ljubljana Stock Exchange and ranked first among the stock exchange members for the second consecutive year. The SBI20 index, which shows the movements in the prices of shares on the Slovenian capital market witnessed a 7.37% drop in 2005, unlike the indices of the developed stock exchanges in the Western Europe, which recorded approximately 20 percent growth.

In 2005, NLB became the first Slovenian bank to offer the possibility of performing payment transactions, conversions and transactions with other instruments of financial trade in the Russian ruble. Clients were also offered the option of selling and purchasing Russian ruble cash.

In the area of FX cash trading the Bank concluded 9,292 deals in a total value of € 1.3 billion.

Derivatives trading

2005 was successful in terms of trading with established derivatives; the Bank concluded 5,145 transactions worth 7.4 billion. Besides forward transactions, companies are frequently deciding to hedge foreign-currency risk by means of FX options.

Interest in interest risk in Slovenia is also growing. Due to changed interest rates, the demand for interest rate swaps and other possible solutions of protecting companies' interest positions (besides regular interest swaps, clients are also interested in interest option combinations, such as collars and basis swaps) is also increasing. With the aim of trading for the account of the Bank, a Forward Rate Agreement (FRA) was concluded and, for the needs of the clients, the first Asian-type options were introduced.

2005 was also a milestone in terms of introducing futures operations. The Bank started concluding FX futures for its own account and the testing period for trading in interest rate futures started. The Bank has also continued negotiations on and the alignment of the base agreement for futures operations.

Debt securities trading

In the debt securities trading portfolio, NLB was active in the Slovenian market and abroad. The largest share of the portfolio of bonds issued in the Republic of Slovenia consists of government bonds and state-guarantee bonds. In 2005, NLB was active in both primary and secondary markets of government, bank and corporate bonds. On 1 September 2005, NLB became the official market maker for Slovenian securities (bonds and treasury bills) on the basis of an agreement signed with the Ministry of Finance and it thereby assumed the responsibility to actively guarantee liquidity and transparency in the market of government securities.

The portfolio of foreign securities consists of bonds issued by governments, state institutions, financial organisations and companies with high investment ratings.

Money market

In 2005, the first REPO transactions were concluded with foreign banks, namely the KBC, Bayerische Landes Bank Munich, the LHB, Frankfurt. NLB used REPO transactions to temporarily sell debt securities with the aim of obtaining additional liquid assets; in a certain period, the total amount reached up to € 150 million.

The Bank significantly increased its turnover of currency SWAPs, the main reason being more deals concluded in the currency pair €/SIT and \$/SIT as foreign banks temporarily sold NLB tolar for foreign currencies.

International operations

Being the largest Slovenian bank and the one with the biggest experience in international operations, NLB has enjoyed a great reputation in the international banking arena for years. NLB performs international operations either from Ljubljana or through its Group which, among others, comprises the Trieste Branch and the representative offices in London, Moscow and Prague. As a member of the Mediterranean Bank Network which consists of the leading banks from the Mediterranean countries, comparable in terms of size and market orientation, it also covers the Mediterranean basin.

Current Account Network

Through its 1,310 correspondence relationships with banks from 138 countries around the world, NLB pursues the interests and business opportunities of its clients. NLB holds 84 nostro accounts in foreign currencies and 291 tolar and FX loro accounts, which enables it to efficiently execute international payment transactions and other operations.

International payment transactions

In 2005, the Bank's total payment transactions reached € 14.7 billion. Of these, the value of payments from abroad totalled € 8.4 billion and payments abroad € 6.4 billion. The companies performed 66% of the total volume of international payment transactions using the electronic banking channel Proklik NLB.

In July 2005, NLB joined the RTGSplus - TARGET system which is used for processing urgent payments or large-value payments in euros within the territory of the European Union. NLB processed about 40% of payment orders through European payment systems (STEP 2, RTGSplus - TARGET).

Documentary operations

Compared to the previous year, the number of newly issued guarantees in 2005 increased slightly (by approximately 2%); it must nevertheless be underlined that the number of guarantees issued in 2004 was significantly higher because of the issue of new guarantees related to entry to the European Union (transit, agriculture etc.). The fact that the upward trend in guarantee operations continued is due to large and complex projects in infrastructure, construction

and foreign investment. A significant increase (as much as 60%) was recorded in confirmed loro guarantees which is due to the fact that guarantees and letters of credit are becoming a more and more popular instrument for financing Slovenian exports. Otherwise, a slight fall

NLB offers a wide range of services intended for monitoring international trade operations in the form of documentary letters of credit, service and payment guarantees, assuming risks by confirmation of documentary letters of credit and guarantees.

has been recorded in the operations of both import and export letters of credit compared to the previous year. On the other hand, there was an increase of about the same percentage in the area of documentary collection (in 2004, the value of export collection grew by as much as 50% and this volume was maintained in 2005) which shows a higher level of confidence in the Slovenian economy.

Support to Slovenian exporters (export financing and insurance facilities)

NLB offers a wide range of services

intended for monitoring international trade operations in the form of documentary letters of credit, service and payment guarantees, assuming risks by confirmation of documentary letters of credit and guarantees.

NLB collateralises its international trade operations with a confirmation of documentary letters of credit and guarantees and provides finance by means of various forms of claim factoring, loans to foreign buyers or loans to foreign buyers' banks and loans to foreign financial organisations. Services are tailored to the needs of individual partners. In export financing and insurance facilities, great emphasis is put on financial support provided to Slovenian exporters to the emerging markets or the markets of countries in transition.

NLB is focused on Slovenia's strategic exporting markets besides EU, such as Russia, the Ukraine, Belarus, Kazakhstan, Croatia, Macedonia, Serbia and Montenegro, Bosnia and Herzegovina, as well as countries in the Middle East and Turkey which are also important target markets for Slovenian exporters. In large projects, NLB provides export-credit financing and insurance facilities against

The most important transaction in 2005 was the raising of a syndicated loan in the form of a "club deal" in the amount of € 540 million, arranged by 13 international banks. This is the largest international loan any Slovenian bank has ever taken out and one of the largest raised by a financial institution in the markets of Central and Eastern Europe.

commercial and non-commercial risks in co-operation with the Slovenian Export Corporation.

In 2005, such large projects involved the financing of Russian buyers of Slovenian goods and services in the total amount of € 58 million, the financing of Ukrainian buyers of Slovenian goods and services in the amount of € 9 million, the financing of Kazakhstani buyers of Slovenian goods and services in the amount of € 3 million and the financing of Kosovar buyers of Slovenian goods and services in the amount of € 2.5 million.

In 2005, the Bank's total export financing reached € 100 million.

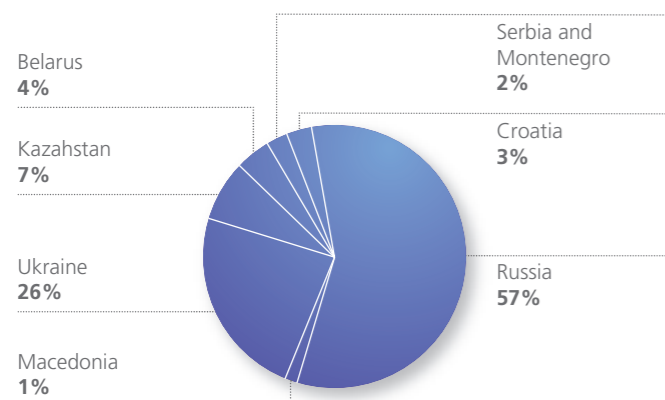
Support to NLB Group members and their clients

Besides export financing, NLB extends loans to members of NLB Group abroad for their operations and participation in loans granted to clients by members of NLB Group abroad. In this way, NLB supports the subsidiary banks and financial organisations in Bosnia and Herzegovina, Macedonia, Serbia and Montenegro, Bulgaria, the Czech Republic and Slovakia, especially for financing international trade and investments.

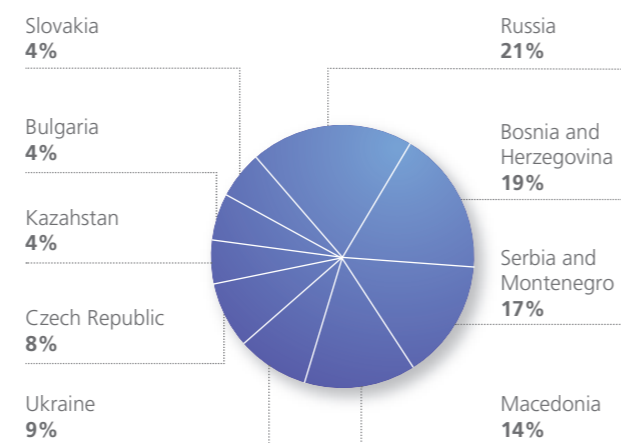
NLB occasionally participates in syndicated loans raised by foreign banks. We decide to co-operate with those banks which can guarantee future business relationships in export finance transactions.

In 2005 the aggregate volume of investments, including export finance transactions to the abovementioned markets and other financial loans, totalled € 268 million. The total volume of the confirmation of letters of credit and letters of guarantee and other forms of assumed risk reached € 140 million in 2005.

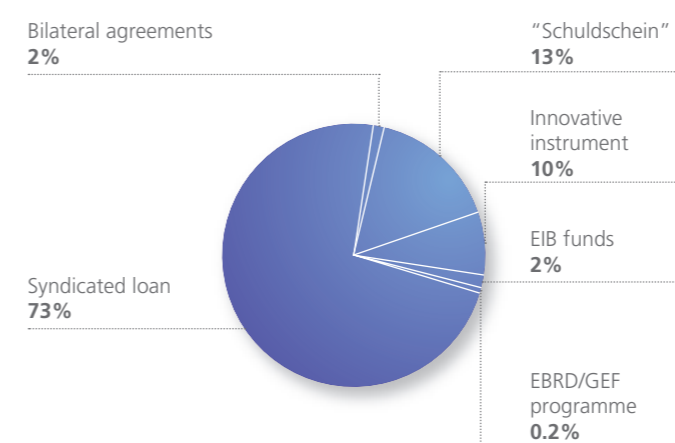
Picture 23: → Structure of the NLB's export financing by countries in



Picture 24: → The NLB loan exposure to countries abroad in 2005



Picture 25: → Structure of the NLB's debt financing in international financial markets in 2005



The credit portfolio grew from € 211 million at the end of 2004 to € 308 million at the end of 2005. Off-balance items grew from € 100 million at the end of 2004 to € 122 million at the end of 2005.

NLB's long-term borrowing in foreign markets

NLB's long-term borrowing in foreign financial markets is one of the most important segments of international operations. Because of the high credit ratings assigned to NLB by international rating agencies and its excellent long-term relationships with foreign banks,

To improve NLB's capital adequacy, KBC N.V. organised the issue of a new innovative instrument in the amount of € 130 million. Following the adoption of adequate legislation in this area, it was possible to include this instrument in the Bank's share capital for the first time.

in 2005 the Bank was also borrowing in international financial markets at very favourable terms.

Due to the expected introduction of the euro in 2007 and the Corporate Income Tax Act, interest in borrowing in euros has increased, together with NLB's need to borrow in international financial markets. Changes in the Slovenian economy dictated a record year for long-term FX borrowing by NLB.

The balance of long-term foreign FX sources raised grew by 76.4% in 2005 compared to the previous year, thus totalling € 1,898 million at the end of 2005.

Borrowing on its own behalf and for its own account

The most important transaction in 2005 was the raising of a syndicated loan in the form of a "club deal" in the amount of € 540 million, arranged by 13 international banks. This is the largest international loan any Slovenian bank has ever taken out and one of the largest raised

by a financial institution in the markets of Central and Eastern Europe. In 2005, NLB raised another syndicated loan in the form of a "club deal" in the amount of € 360 million, arranged by 12 international banks.

Also in 2005 NLB borrowed funds in the form of debentures or "Schuldscheins" for the first time ever. The issue of debentures with a five-year tranche in the amount of € 100 million and a two-year tranche in the amount of € 62.5 million was arranged by 9 international banks.

To improve NLB's capital adequacy, KBC N.V. organised the issue of a new innovative instrument in the amount of € 130 million. Following the adoption of adequate legislation in this area, it was possible to include this instrument in the Bank's share capital for the first time.

Borrowing on its own behalf and for the account of a client

NLB and the European Investment Bank signed the second of two contracts in the amount of € 25 million in the framework of the "Global Loan" credit line in a total amount of € 100 million, intended for financing SMEs and projects in the field of environmental protection, infrastructure, health, education and efficient energy use.

In 2004, NLB signed an agreement with the European Bank for Reconstruction and Development (EBRD) on the financing of environmental projects within the scope of the EBRD/GEF programme in the amount of EUR 10 million. As the programme attracted great interest among Slovenian companies, especially because of the non-redeemable funds granted to the final borrower as a reward for a successfully completed project, NLB signed an annex to the existing contract with the EBRD in October 2005.

Four bilateral agreements in a total amount of € 30.1 million were concluded for the needs of the clients, three of them with Austrian banks and one with a German bank.

The Euro Project

Slovenia plans to introduce the euro as deposit money and cash according to the "Big Bang" principle on 1 January 2007. At the end of November 2004, NLB set up the EURO Project with the aim of preparing and implementing all the activities needed for adapting the Bank's operations to the new currency.

Slovenia plans to introduce the euro according to the "Big Bang" principle on 1 January 2007. At the end of November 2004, NLB set up the Euro Project with the aim of preparing and implementing all the activities needed for adapting the Bank's operations to the new currency.

Preparations at NLB are being carried out systematically and according to the plan. In the first quarter of 2005, a detailed inventory was made of all products and processes that would be affected by the changeover to the new currency. Afterwards, feasibility studies and adaptation plans by area of operation were prepared. The implementation of previously prepared detailed instructions on the adaptation of information support started in November. At the same time, preparations for testing these adaptations started and will be carried out throughout 2006 within the bank as well as within the external environment.

Plans for the changeover to the euro have been prepared in the area of cash logistics and ATMs; work organisation plans within the branch network have been adapted; training programmes have been prepared, etc. Adaptations in the legal area have been made and an overall strategy of communication with key segments of the public has also been prepared.

The organisation of euro preparations is a very complex project as they will affect the Bank's entire information system and most of its business processes. The cash changeover itself will be quite a challenge in terms of logistics.

This is a top priority project in NLB and it will demand considerable human and material resources of the Bank in the period up until spring 2007.

Information technology

In 2005, the process of stabilising the functioning of information systems continued and 99.83% annual availability was achieved. With the measures adopted for supervision and internal control procedures, the Bank stopped critical downtimes despite very changing environment.

In 2005, the Bank adopted the IT Strategy until 2009. In this document it defined the target technical and business architecture and determined the steps needed for achieving this goal by defining the key development projects for implementation of the strategy with development dynamics.

The Bank's planned development strategy was taken into account, as well as the existing limitations arising from the adaptation of operations to the euro. Moreover, the strategy defines the key development projects related to infrastructure and the organisational measures for ensuring the stable and safe functioning of information support and adequate measures for managing IT operating risks.

For the purposes of ensuring business continuity, the Bank activated additional capacities and the process of recovery. The existing disaster recovery plans were controlled and tested regularly. The Bank regularly amended and supplemented its support due to changed provisions, especially in the area of reporting to external institutions such as, for example, the ECB, tax legislation, the

introduction of international accounting standards and Basel II.

Adaptation to the market needs was mainly reflected in the provision of support to the management of custody services for management companies, funds, pension companies, new products for retail clients. The Bank implemented **Globus** and Novo bančno okence (**New Front-End Application**). In Globus, supports for corporate transaction accounts were introduced, as was support for deposit operations and, at the end of the year, support for simple credits. In the scope of the new Front-End Application, the first pilot version of the solution was introduced at the end of the year, including all financial transactions. Its introduction to all branches and other banks of NLB Group will be concluded by 30 June 2006 and we will be able to drop the old technology afterwards. The Kondor+ solution was introduced for managing risks in trading in foreign markets. In payment transactions, the Bank's entry to the **Target system** is the most important moment.

Considering the need for development in the field of support to operations, the requirements for better risk management and integration of changes and needs for adaptation to the euro, the Bank continued with its strategy of collaborating with local software development companies in 2005 so as to ensure adequate capacities for the critical period of the next two to three years. In this way, the Bank will be able to cover several of its development needs, ensure support that will be in compliance with the applicable legislation, reduce its dependence on key suppliers and carry out urgent activities for the simplification of information support.

In 2005, the Bank assumed a more active role in the area of information technology, including in the banks of NLB Group. Besides the transfer of know-how and the standards of IT functioning, the Bank's principal activity was related to harmonising products used by individual banks for supporting their operations at the level of individual countries in the territory of former Yugoslavia and beyond. This is a sound basis for the mergers of banks or at least for IT connections in terms of setting up joint processing centres. The Bank's IT experts actively participate in projects to modernise these banks' information systems.

Risk management

The prudent management of risks is aimed at maintaining the high quality of investments. The use of standard risk management methods enables the quality assessment of risk, timely response and reduction of NLB Group's exposure to all risks.

Credit risk management

NLB's credit portfolio includes balance-sheet items (loans, investments in securities, capital investments, interest, fees, commissions etc.) as well as off-balance-sheet items (guarantees, L/Cs, credit lines, claims arising from derivatives etc.) towards corporate clients, banks, the public sector, sole proprietors, retail clients and all other clients. With these investments, the banks incur an exposure to credit risks. In investments involving clients registered in other countries, there is also the element of country risk which is typical for individual countries. Depending on the country risk and contingent insurance, the Bank forms an appropriate amount of provisions to shield itself against the country risk.

Prior to credit approval or entering into a contract which would expose the Bank to credit risk, every client receives a rating and individual borrowing limit.

The client's rating depends on their financial position, business performance, relationship with the Bank to date, and the ability to provide a sufficient cash flow to meet future obligations.

The client's limits are established on the basis of their creditworthiness, the feasibility of the transaction, as well as other elements which might influence their ability to pay back the investment. They are determined separately for long- and short-term investments.

In addition to determining ceilings for individual clients, the Bank also establishes ceilings for client and country groups. After an investment has been approved NLB regularly monitors every client's performance and settling of obligations.

Depending on the risk category of a client as expressed by their credit rating and the risk of each specific transaction which is also influenced by the guarantees provided, the Bank forms appropriate provisions for protection against credit risk. Provisions are formed in accordance with both the Slovenian and the International Financial Reporting Standards.

In 2005, NLB strengthened its control over subsidiary banks and financial institutions by performing regular checks of their business practices and investment portfolios. Further, the Bank also adopted the programme for developing risk management in the banking group (minimum standards). This approach ensures equal and standard procedures are applied when rating clients and forming provisions for credit risk in the area of credit risk management. When determining differences in forming provisions (mainly due to different

national legislations and practices compared to those applying in Slovenia), these are calculated in accordance with the provisions set by the Bank of Slovenia and the differences are included in the consolidated accounting statements of NLB Group.

Market risk management

The Bank manages market risks on the global level, as well as separately by positions in its banking and trading books. In 2005, the Bank was mainly exposed to foreign exchange and interest rate risks, whereby the exposure was relatively small. NLB does not actively trade in derivatives. The Bank has set up a risk management system that enables it to compare exposures to pre-defined limits every day. The exposures to market risks and compliance with the limits are continuously monitored and risk reports are regularly submitted to the business part and the ALCO.

In line with the requirements set by the Bank of Slovenia, the Bank provides sufficient equity to cover potential unexpected losses which may arise from exposure to foreign exchange and other market risks.

Currency risk

Foreign exchange risk is monitored and managed on a daily basis. By closing open FX positions on a daily basis the Bank minimises its foreign exchange exposure and thereby adheres to its relatively conservative policy of managing foreign exchange risk. The Management Board approved the limits on allowed exposure by foreign currency and by trader. Compliance with the limits is checked on a daily basis. In addition to the standardised methodology, NLB uses its own internal Value at Risk model (VAR) to determine the FX risk embedded in its positions (trading and banking books) and maximum potential losses associated with them. The VAR is calculated using

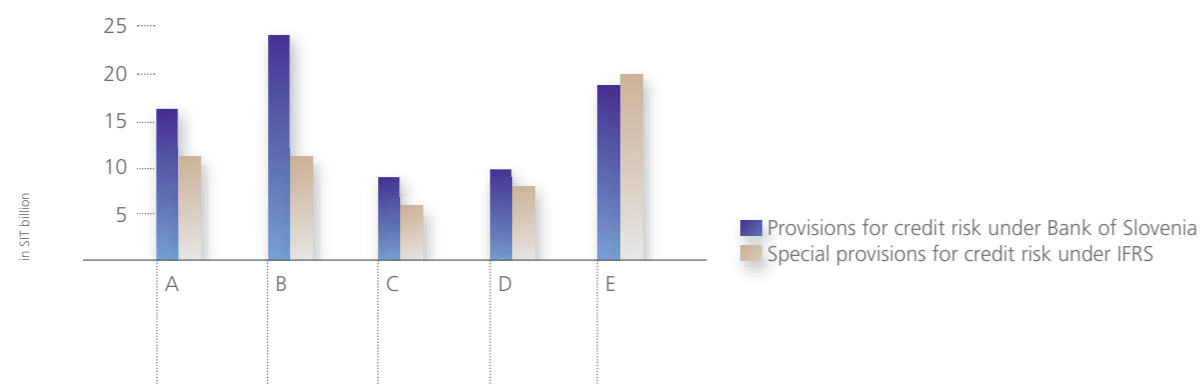
a historical simulation method and is in accordance with the Basel II standards for capital adequacy calculations. In addition to this, back-testing is carried out on a daily basis to confirm the accuracy of the model. The model is currently being tested and has not yet been recognised as the internal model and is therefore used for internal purposes only.

Interest rate risk

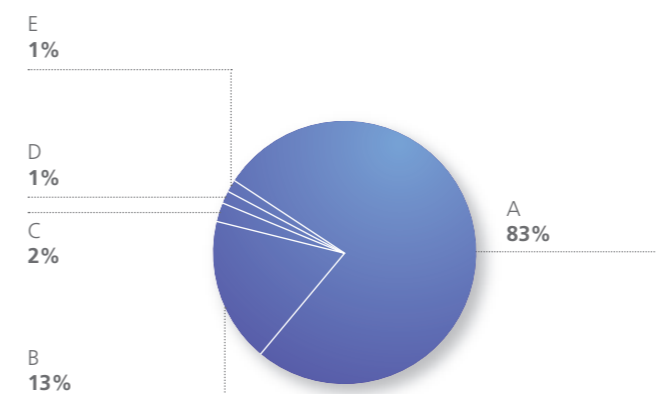
The Bank's interest rate risk exposure is monitored and managed using the methodology of interest spreads. These reports contain an interest rate sensitivity analysis by time gaps for both balance and off-balance sheet items which are monitored by type of interest rate and by time gaps depending on their maturity or their next repricing date.

NLB has upgraded its interest rate sensitivity analysis with the separate management of interest rate risks of two positions in the banking book

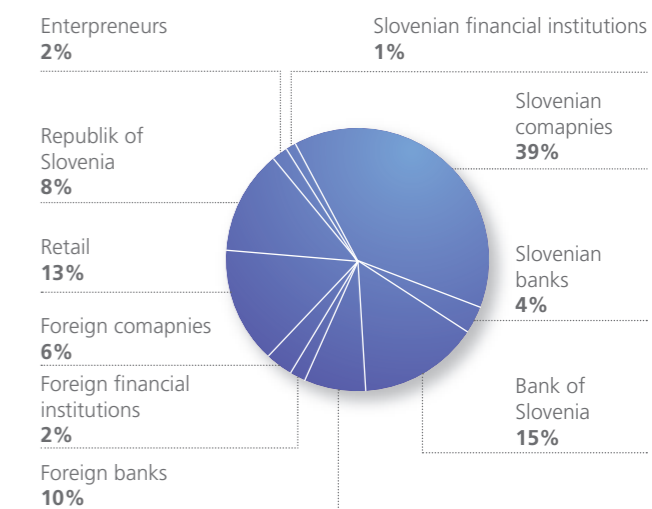
Picture 26:
→ NLB provisions in 2005



Picture 27:
→ Asset portfolio quality of NLB, as at 31 December 2005



Picture 28:
→ Loan portfolio structure by customers of NLB, as at 31 December 2005



- transformation and hedging position. For the purpose of determining its exposure to interest rate risks, NLB performs interest rate gap analyses as well as sensitivity analyses of the impact on changes in market interest rates on the market value of instruments and the amount of interest income.

The table 10 below gives an estimate of the degree to which a drop of 10 basic points (-0.10%) in interest rate impacts on net interest income (NII) during the current year and the change in portfolio value (BPV) for the hedging position.

Trading book

NLB has several branches engaged in money and capital market trading. They focus primarily on providing services for clients, asset management, short-term placements and fund-raising, and trading for one's own account. They trade in various currencies, interest rates and their derivatives. Trading in options is limited

to FX and interest rate options and is only performed upon the request of a client. The Bank does not trade in credit derivatives and derivatives on goods.

Bond portfolio

The monitoring and measuring of risks related to the foreign bonds portfolio are based on the variance-covariance method of calculating VAR. Presumptions of the model are:

- a confidence level of 99%;
- an observation period of 250 business days;
- a position holding period of 10 days.

Exposures of the domestic government bonds portfolio and the foreign bonds portfolio are monitored on the basis of the BPV and gap methods.

The Bank has also adopted a policy for managing the portfolios of debt securities that has been approved by the Management Board. The policy defines

the allowed structure of investments within the portfolio, the monitoring and management of risks and possible forms of portfolio hedging.

Share portfolio

In the area of investments in equity securities NLB adopted the investment management policy approved by the Management Board. The policy defines the allowed structure of investments within the portfolio, monitoring and management of risks and possible forms of portfolio hedging. In 2005 the main part of the portfolio was relatively stable.

The Bank applies the VAR method to monitor and measure share portfolio risks. The method measures potential losses of the portfolio within for a 10-day holding period, given a confidence interval of 99%. It takes into account 250 days of historical data and is in accordance with the BIS standards. The calculation is based on a historical VAR

simulation in which the Bank does not assume any specific distribution.

Derivatives portfolio

The Bank concludes deals with currency and interest derivatives. Trading in these derivatives is not active and the majority of deals are concluded upon the order of the Bank's clients; the positions are mainly closed. The majority of instruments are FX forwards and FX and interest rate swaps.

Basel II

In terms of introducing the European directive CAD III, the Bank focused on establishing a liability structure needed for implementing tasks in the area of operational risks, developing application support for the process of setting up a database and transferring know-how to the Bank's and the Group's employees in 2005. The project did not change and the principal aim remains introduction of the standardised approach.

Table 6:
→ Migration matrix of NLB,
weighted by exposure for 2005

from	to					Exposure (in SIT thousand)	Average rating*
	A	B	C	D	E		
A	98.46%	1.44%	0.08%	0.02%	0.00%	2,070,102,126	4.98
B	34.12%	62.53%	2.83%	0.48%	0.04%	311,047,172	4.30
C	30.07%	12.06%	53.72%	4.00%	0.15%	49,863,284	3.68
D	0.00%	11.49%	4.44%	72.38%	11.70%	21,752,654	2.16
E	0.00%	0.00%	0.00%	0.00%	100.00%	19,846,170	1.00

* Note: A=5,..., E=1

Table 7:
→ Migration matrix of NLB, weighted by exposure based
on annual transitional matrices for the period 1995-2005

from	to					Exposure (in SIT thousand)	Average rating*
	A	B	C	D	E		
A	98.00%	1.78%	0.17%	0.04%	0.01%	11,627,257,489	4.98
B	20.00%	76.01%	2.48%	1.37%	0.14%	1,857,501,138	4.14
C	9.75%	20.19%	59.69%	9.45%	0.92%	306,999,226	3.28
D	0.08%	16.71%	12.43%	59.90%	10.87%	184,595,243	2.35
E	1.43%	0.48%	1.62%	1.62%	96.26%	184,179,618	1.09

* Note: A=5,...,E=1

In credit risks, the focus was on the area of developing a statistical model for classifying companies in rating classes, which had been submitted for testing at the end of 2005 and will be subsequently upgraded by qualitative information. Even though the plan is to introduce the standardised approach when the directive enters into force, we are striving to introduce novelties and the best practices of other banks from around the world.

Liquidity management

NLB regularly met all its monetary obligations and set aside sufficient liquidity reserves in both domestic and foreign currencies in compliance with the Bank of Slovenia's regulations.

Given the general situation in the Slovenian market, the Bank was acquiring substantial tolar funds stemming from temporary sales of foreign exchange (swaps) to the Bank of Slovenia. In addition to this source, the Bank obtained funds in the interbank market by means of deposits, temporary sales of securities and auctions through the Ministry of Finance and by means of the Bank of Slovenia's instruments stemming from temporary sales of FX central bank bills (repo). The majority of funds acquired had a short-term maturity. Surpluses in tolar funds were placed at higher interest rates on the inter-bank market with banks, as well as in central bank bills, treasury bills and government securities of the EU Member States. The Financial Markets and Treasury Division of NLB Group continued to co-

ordinate activities in the area of treasury operations and liquidity management in NLB Group in 2005. Based on the Agreement on Co-operation in the area of treasury operations, banks of NLB Group in the Republic of Slovenia concluded deals on the interbank money and foreign-currency markets thus ensuring tolar and foreign-currency liquidity and fulfilling the regulations and measures prescribed by the Bank of Slovenia, about which they regularly reported to the parent bank.

Compliance with the Bank of Slovenia's regulations

In 2005, the Bank complied with the regulation on statutory reserves. The percentage of meeting the statutory reserves ranged from 100.3% to 101.0%.

Gradual adaptation of the statutory reserves to the ECB standards brought further substantial changes, applicable as of March 2005:

- a reduced percentage in the calculation of statutory reserves for

tolar deposits up to 90 days from 4.5% to 2%, which has been set as the uniform rate for all deposits with a maturity of up to two years; and

- the interest rate did not change (1%).

The Bank complied with the prescribed measure on minimum liquidity while its liquidity ratios during the January to December 2005 period ranged from 1.0286 to 1.0492 in the class 0-30 days and from 1.0444 to 1.0871 in the class 0-180 days.

At the same time, the Bank complied with the measure on attaining foreign-currency liquid investments. Banks must ensure, on a daily basis, that their foreign-currency liquid investments in the second class of the foreign exchange section equal at least 70% of the monthly average of their balance sheet liabilities for the preceding calendar month (since 15 June 2004). The subscription of central bank bills in foreign currencies is no longer mandatory.

Table 8:
→ Hedging position of NLB as at 31 December 2005

in SIT million	31. 12. 2004	31. 12. 2005
BPV (-10 bp)	237.8	284.9
D NII* (-10 bp)	57.9	41.5

*NII - 1-year interest rate gap multiplied by the change in the interest rate

Picture 29:
→ VAR of currency positions of NLB

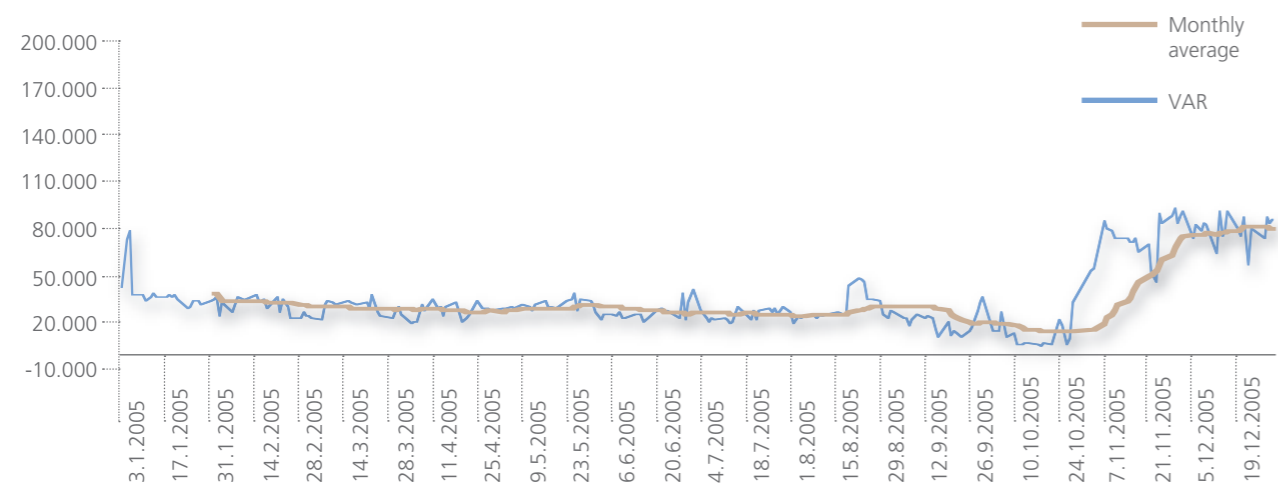


Table 9:
→ VAR for shares of NLB

in SIT	Average VAR	min. VAR	max. VAR
First half of 2005	633,920,737	418,592,480	672,137,061
Second half of 2005	676,355,732	596,226,557	764,478,573

Table 10:
→ VAR and BPV for bonds of NLB

	Tolar bonds		Foreign bonds	
	31. 12. 2004	31. 12. 2005	31. 12. 2004	31. 12. 2005
BPV (-10 bp)	+145.9 mio. SIT	+370.6 mio. SIT		
VAR			163.2 mio. SIT	422.1 mio. SIT
VAR as % of market value			0.68 %	1.02 %



Governance

Making a vision come true

Big things are achieved in small steps.

Because hard work bears fruit.
Because dreams are hidden in every enterprise.
Because enterprise creates lives.
Because many wishes rely on it.
Because only success counts.

I know why

Corporate governance

NLB as a parent bank manages and supervises NLB Group by means of appropriate mechanisms which include appointing and dismissing management and supervisory bodies in NLB Group members, advisory committees, the Strategic Conference of NLB Group and co-operation by business areas.

Supervision over NLB Group is also exercised by the Internal Audit which reserves one-quarter of its annually planned activities for the auditing of group members. The Legal and Compliance Office determines uniform standards, the external auditor - ensures independent audits in the members, while additional supervision is carried out by local supervisors of members.

The Management Board of NLB

The Management Board of NLB runs and represents the Bank for the benefit of the Bank, independently and at its own responsibility, while it also holds all powers necessary for this purpose pursuant to the applicable law and the Bank's Articles of Association.

Collective decision-making bodies:

- **The Credit Committee of NLB** adopts decisions on classifications, borrowing ceilings and grants investments in the area of commercial banking. The Committee adopts decisions in accordance with the Rules on Authorisations and Signing in NLB. It holds weekly meetings. At least three Management Board members must be present at such meetings. The President of the Committee is a member of the Bank's Management Board in charge of the Value-Generating Centre 3 (which carries out the marketing of banking and other financial services for large companies and strategic clients).

- **The Asset and Liability Committee (ALCO) of NLB** monitors the situation in financial markets, analyses balance-sheet positions, changes and trends and formulates resolutions for the achievement of the balance-sheet structure in line with the Bank's business policy and enables normal banking activity and the achievement of targeted goals. It meets twice a month. At least three Management Board members must be present at such meetings. The President of the Committee is a member of the Bank's Management Board in charge of the Value-Generating Centre 1.

Management Board's advisory bodies

- **The Cost Committee of NLB** is a professional, advisory and co-ordinating body which assists the Management Board in the co-ordination and supervision of the approval of costs and adoption of decisions on other costs.
- **The Price Policy Committee of NLB** is a co-ordination and advisory body of the Bank's Management Board in charge of drafting proposals on commercial interest rates and tariffs in accordance with the business policy and the goals of NLB.
- **The Trading and Market Risk Committee of NLB** is a co-ordination and advisory body of the Bank's Management Board in charge of defining, adopting and monitoring the implementation of policies and methodologies of the Bank in the area of trading.

- **The Operating Risk Committee of NLB** is a co-ordination and advisory body of the Bank's Management Board in charge of guiding and supervising operating risk management in NLB and the transfer of methodology to Slovenian banks within NLB Group.
- **The Management Board Committee** is an advisory body of the Bank's Management Board which submits opinions and suggestions on matters lying within the competence of the Management Board. At the meetings of this Committee, the Management Board delegates tasks while the persons in charge must report on implementation.
- **The Strategic Conference** is organised twice a year for NLB (spring and autumn) and once a year (at the end of January) for NLB Group. At the spring conference, NLB's operations in the past year are discussed while at the autumn conference, they discuss the strategy and plan for the next year; at the conference in January, the participants assess the work in the previous year and the strategic and business orientations for the next year.

The Supervisory Board of NLB

The Supervisory Board of NLB monitors and supervises the Bank's management and operations. Unless otherwise stipulated in the Articles of Association, the Supervisory Board shall constitute a quorum if properly convened and if at least half of its members are present or represented at a meeting, among whom either the Chairman or the Deputy Chairman is to be present in all cases.

At the General Meeting of NLB held on 29 June 2005, new members of the Supervisory Board were appointed, i.e.: Žiga Lavrič (Chairperson), Andrijana Starina Kosem (Deputy Chairperson), Zvonko Ivanušič, Peter Ješovnik, Igor Marinšek, Marko Rus, André Bergen, Christian Defrancq, Riet Docx, Frans Florquin and Anne Fossemalle.

In 2005 the Supervisory Board held 8 regular and 7 correspondence sessions.

There are four committees of the Supervisory Board whose purpose is to improve the efficiency and professionalism of the functioning of the Supervisory Board and to ensure more detailed discussions of individual topics:

- **The Development Committee** of the Supervisory Board of NLB is in charge of monitoring the basic strategic issues and preparing proposals related to development of the information system, products, domestic and foreign operations and NLB's organisation.

- **The Audit Committee** of the Supervisory Board of NLB is in charge of monitoring and preparing proposals related to internal auditing and compliance, discussing external and internal audit reports and evaluating audit procedures.
- **The Risk Committee** monitors and supervises the policies and procedures of risk management and organises risk management in the Bank.
- **The Remuneration Committee** adopts decisions concerning remuneration policy.

General meeting of shareholders of NLB

On 29 June, representatives of NLB's owners gathered at the 10th regular General Meeting of Shareholders. They acknowledged NLB's Annual Report for the previous business year and the report prepared by NLB's Supervisory Board, adopted the proposed distribution of profit and dividends in the amount of SIT 358.28 per share. A total of 95.60% of shareholder votes was present at the General Meeting. There were no counter proposals and the shareholder representatives participating at the General Meeting adopted all the proposals unanimously. The General Meeting of Shareholders also approved the amendments to the Bank's By-laws. They appointed the new members of the Supervisory Board. They also appointed the Bank's auditor for 2005, namely the auditing company PricewaterhouseCoopers.

Next General meeting will be held as at June 28, 2006.

Table 11:
→ Ten biggest shareholders of NLB as at December 31, 2005

	Name of shareholders	Number of shares	Share in %
1	Republika Slovenija	2,720,234	35.41
2	KBC Bank NV	2,611,885	34.00
3	Slovenska odškodninska družba, d.d.	388,113	5.05
4	Kapitalska družba, d.d.	384,490	5.01
5	European Bank for Reconstruction and Development (EBRD)	384,101	5.00
6	Poteza naložbe d.o.o.	262,591	3.42
7	NFD 1 delniški investicijski sklad d.d.	113,077	1.47
8	Zavarovalnica Triglav - kritni sklad	107,166	1.40
9	Triglav steber I, d.d.	93,445	1.22
10	Aktiva naložbe, d.d.	67,455	0.88
	Total ten shareholders	7,132,557	92.85
	Others	549,458	7.15

Table 12:
→ Key figures per share of NLB

	2004		2005	
Number of shares	7,682,015		7,682,015	
Nominal value	2,000	8.3	2,000	8.3
Book value	15,763.8	65.8	16,990.3	70.9
Net profit per share (EPS)	895.7	3.7	1,514.4	6.3
Dividends payout	358.3	1.5	605.8	2.5

Picture 30:
→ NLB's shareholders as at December 31, 2005

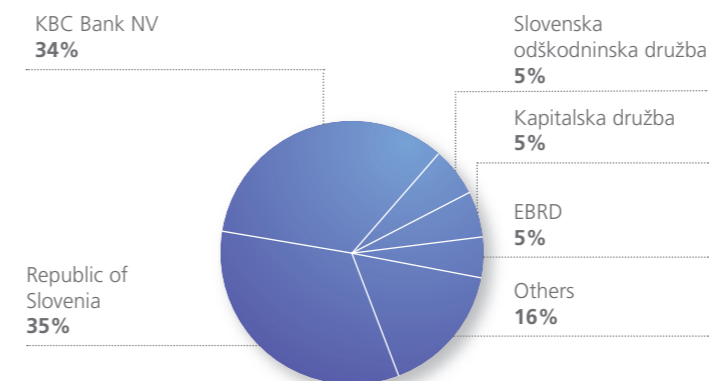


Table 13:
→ Significant positions outside
the Bank's Management Board

Name and surname	Position on the Bank's Management Board	Significant positions outside the Bank's Management Board
Marjan Kramar	President of the Management Board	Chairman of the Supervisory Body: LHB Internationale Handelsbank, Frankfurt ETI d.d., Izlake Združenje bank Slovenije
Andrej Hazabent	Member of the Management Board	Chairman of the Supervisory Body: Koroška banka, Slovenj gradec NLB Skladi, Ljubljana NLB Factoring Ostrava, Nov penziski fond, Skopje Continental banka, Novi Sad NLB Factor Bratislava Member of the Supervisory Body: West East Bank, Sofija, Adria Bank, Dunaj Skupna pokojninska družba, Ljubljana NLB Montenegro banka, Podgorica
Matej Narat	Member of the Management Board	Chairman of the Supervisory Body: Banka Domžale, Domžale NLB Montenegro banka, Podgorica Banka Zasavje, Trbovlje NLB Leasing Ljubljana NLB Propria, Ljubljana CBS Bank, Sarajevo Tuzlanska banka, Tuzla Tutunska banka, Skopje
Borut Stanič	Member of the Management Board	Chairman of the Supervisory Body: LB Maksima, Ljubljana Prospera Plus, Ljubljana Banka Celje, Celje LB Interfinanz, Zürich Bankart, Ljubljana Member of the Supervisory Body: LHB Banka Banja Luka LHB Banka Belgrade
Pierre Van Keirsbilck	Member of the Management Board	Chairman of the Supervisory Body: Razvojna banka, Banja Luka Member of the Supervisory Body: LHB Internationale Handelsbank, Frankfurt NLB Vita, Ljubljana NLB Skladi, Ljubljana LB Interfinanz, Zürich Continental banka, Novi Sad
Erik Marcel Hugo Luts	Member of the Management Board	Member of the Supervisory Body: NLB propria, Ljubljana

Table 14:
→ Significant positions outside
the Bank's Supervisory Board

Name and surname	Position on the Bank's Supervisory Board	Significant positions outside the Bank's Supervisory Board
Žiga Lavrič	Chairman of the Supervisory Board	State secretary: Ministry of Finance
Andrijana Starina Kosem	Deputy Chairperson of the Supervisory Board	State secretary: Ministry of Economy, President of SB: Kapitalska družba d.d., Ljubljana Member of SB: Slovenske železnice d.d.
Zvonko Ivanušič	Member of the Supervisory Board	Deputy president of MB: Pozavarovalnica Sava, President of SB: Zavarovalnica Maribor, Zavarovalnica Tilia, Member of SB: Sava Plus, Dars
Peter Ješovnik	Member of the Supervisory Board	Deputy manager: Služba vlade RS za evropske zadeve
Igor Marinšek	Member of the Supervisory Board	Manager: Legal & HR, Mobitel d.d. Ljubljana
Marko Rus	Member of the Supervisory Board	President of MB: A & C Rus Consulenza Srl., Torino, Italy, Manager: A&C Rus Nepremičnine d.o.o., Ljubljana
André Bergen	Member of the Supervisory Board	CEO of the Executive Committee KBC Bank NV, Member of MB: KBC Group, BVB, VOKA, Stichting Nicolaas Rockox, K & H Bank, Madžarska, Member of SB: Kredyt Bank, Warsaw, CSOB, Prague
Christian Defrancq	Member of the Supervisory Board	Managing Director: KBC Verzekeringen DSE, KBC Bank & Insurance Holding President of SB: Fidea Ins. Co., Belgium, Delphi Ins. Co., Belgium, ADD Ins. Broker, Belgium, 3Force IT Company, Belgium, K & H General Ins. Co., Hungary, CSOB Poistovna, Czech, CSOB Poistovna, Slovakia, Member of SB: Centea Ins. Co., Belgium, K & H Life Ins. Co., Hungary, Warta Ins. Co., Poland, KBC Exploitatie, NLB Vita d.d., Ljubljana
Frans Louise Florquin	Member of the Supervisory Board	Managing Director: KBC Bank, President of MB: CBC Banque Sa, Centea, Member of MB: KBC Bank and Insurance Holding Co. NV, KBC Asset Management Member of SB: CSOB a.s., Prague, Kredyt Bank PBI s.a., Warsaw, TUIR Warta, K & H Bank, Hungary
Riet Docx	Member of the Supervisory Board	General Manager: Central Europe Banking Co-ordination: KBC Group
Anne Fossemalle	Member of the Supervisory Board	Senior banker: EBRD Financial Institutions Team Member of the SB: CSOB Bank, FUIB, BRD, Ukraine Fund

Statement on NLB Compliance with the Corporate Governance Code

NLB is acquainted of the Corporate Governance Code (“the Code”) as an important substantial guideline for a quality corporate governance. In Slovenia, this document, which is available to the public on the website of the Ljubljana Stock Exchange, is important tool for company managers looking for an efficient method of their own of quality management and guidance useful for all the shareholders and the company as a whole in the scope of globally acceptable policies - *mutatis mutandis*.

Therefore, NLB not only agrees with the basic principles of the Code, but also strives not to deviate from the spirit and guidelines of this document in the scope of its operations, as far as possible and notwithstanding the fact that it is not formally bound by the Code due to its legal status. Taking into account the Preamble of the Code, this document lays down the points and details in which the company's operations do deviate from the “letter” of the Code, the aim being to highlight such deviations and clearly present the current situation. A summary

of such cases is given below, together with the reasons for their occurrence. They are partly the result of the general characteristics of the banking sector and especially connected with the Bank's specific position in the Slovenian and European financial area, its ownership structure and other circumstances that cannot be directly influenced by the management.

Item 1.1.1. of the Code: The maximising of the company's value as its basic goal will be explicitly laid down in the company's Articles of Association after the appropriate amendment to the Articles of Association at the General Meeting of Shareholders in 2006.

Item 1.3.9. of the Code: In our opinion, the provision that the members of the Supervisory Board should be elected individually is somewhat unreasonable, as it increases the chances of the required number of Supervisory Board members specified in the Articles of Association are not elected. If a shareholder does not agree with an individual candidate, he can submit an appropriate counter-proposal.

Item 2.2.1 of the Code: The segregation of operating areas and tasks among the members of the Management Board and the methods of their co-operation are defined by the Rules of Procedure of the Management Board of NLB which implement one of the basic rules of the corporation law, namely, that the Management Board is authorised to organise its own tasks and define its own internal delimitation of responsibilities and competences in a way that guarantees optimal implementation of the assigned tasks, all in the scope of the guidelines issued by the Supervisory Board as the direct supervision body. The fact that the Management Board's operations have always been assessed positively by the Supervisory Board is a proof that the structure of responsibilities, duties and

delimitation of tasks, as laid down by the Rules of Procedure, is appropriate.

Item 2.2.2 of the Code: As additional conditions and criteria for selecting a member of the Bank's Management Board are defined in the most important specific legal framework applicable to the operations of a bank, namely, the Banking Act (very explicitly and more strictly than in the Companies Act, which is more general and applies to other types of companies as well), there is no need to repeat such provisions in the Articles of Association or by adopting a special resolution of the Supervisory Board.

Item 2.3.2 of the Code: Until now, the Supervisory Board has not believed it was necessary to further formalise or concretise the criteria from this Item of the Code which are nevertheless fully complied with, in terms of letter and spirit, when negotiating and approving the concrete managerial contracts concluded with the members of the Management Board.

Item 2.3.8. of the Code: The total receipts of the members of the Management Board - aggregately - are evident from the explanations to the financial statements. We believe that this satisfies the justified interest of the shareholders in the revelation of the information on the financial burden to the company due to the receipts of the Management Board members. It is not necessary, and from the point of view of personal data protection it is also not justified, to reveal these data for each member of the Management Board individually.

Item 2.4.6. of the Code: Certain members of the Management Board of NLB are simultaneously members of Supervisory Boards in a larger number of public limited companies than allowed by the Code, with NLB strictly following the applicable legislation in this area. As far as respecting the restriction under this item, we believe that, by setting the maximal number of memberships, it is somewhat too rigid, especially for parent companies in concerns with a

large number of subsidiaries. The rules on the responsibility of the members of the Management and Supervisory Boards for their work effectively prevent the members to assume so many functions that they could not perform them professionally and diligently.

Item 3.3.6. of the Code: As regards the determination of previously agreed internal criteria for the membership in the Supervisory Board we again believe that the Banking Act is a sufficiently explicit, precise and legally-binding provision that regulates the composition of the banks' bodies and lays down strict criteria that guarantee appropriate and professional selection of persons eligible for membership in these bodies.

Item 3.3.10. of the Code: There is no representative of employees in the Supervisory Board of NLB, as the provisions of the Worker Participation in Management Act do not apply to banks.

Items 3.4.1. and 3.4.2. of the Code: The members of the Supervisory Board of NLB are paid the session fee which is defined separately for the Chairman, while all members receive the same amount of session fee. It is also proposed to this year's General Meeting of Shareholders that they should become entitled to the reimbursement of the expenses related to the performance of their functions.

Item 3.3.5. of the Code: Detailed criteria for the assessment of the existence of a conflict of interest between a member of the Supervisory Board and the Bank as well as the code of conduct in relation to it will be, in line with the recommendations of the Code, regulated in the amendments to the Rules of Procedure of the Supervisory Board not later than by the adoption of the Statement that will be part of the business report for 2006. Of course, even without such document, the work of the Supervisory Board strictly follows the principles of impartial and fair performance of the function, which is also a legal obligation of the Supervisory Board members.

Internal Audit

NLB's and the Group's Internal Audit is organised as an independent management support service that reports directly to the Management Board.

Its goal is to issue objective guarantees and advise the Management Board and other management at all levels regarding the protection of the Bank's assets, improvement of liquidity and efficient performance. It helps the Bank and the Group achieve their strategic and business goals in accordance with the principles of best banking practice.

NLB's Internal Audit is bound to comply with the provisions of the Banking Act and performs its tasks as defined in the Document on the Internal Audit Operations. Internal auditors act in line with the principles of independence, expertise and objectivity, follow ethical principles such as the basic principles of the auditing profession and the international standards of internal auditing. The instructions for work of the Internal Audit are defined in the Internal Audit Manual. The Internal Audit regularly reports about its activities to the Management Board and the Audit Committee of the Supervisory Board and, if necessary, to external auditors.

Methods of work and principal activities

The Internal Audit's methods of work are compliant with the new banking legislation and the internal auditing profession. The auditing approach is based on the analysis of inherent and control risks existing in individual areas of the Bank's operations. The analysis carried out serves as the basis for the annual and long-term planning of internal audits. The greatest emphasis is on the system of internal controls and risk management as foreseen by international practice in accordance with the COSO Model (The Committee of Sponsoring Organisations of the Treadway Commission): IC ("Internal Control") and ERM ("Enterprise Risk Management"). The

two models represent the criteria for the Internal Audit when assessing the control system and managing risks. Control Self Assessment (CSA) questionnaires are used for verifying internal audits in the branch network and internal audit services in members of the Group. The CSA approach involves a combination of

In 2005, the Internal Audit performed 42 regular and 13 extraordinary audits, as well as 78 audits of exchange offices.

management supervision and standard internal auditing, which is a supplement to the existing internal auditing.

Among the most important tasks of the Internal Audit are the maintenance and development of uniform auditing standards at the level of the Group, as well as supervision over the functioning of internal audit services.

The Internal Audit is also in charge of co-ordinating the procedure of selecting an external auditor for auditing the Annual Report of the Bank and the Group, co-ordinating the process of external auditing and monitoring the implementation of recommendations made by the external auditor. Based on international auditing standards, the external auditor can use the services provided by the Internal Audit for auditing purposes.

The Internal Audit co-ordinates the inspections carried out by the Bank of Slovenia, monitors the implementation of its recommendations and reports to the Management Board and the Supervisory Board of the Bank. It also informs the Bank of Slovenia regularly of all significant current developments in the Bank and resolves any problems

in understanding and implementing the banking regulations.

The Internal Audit co-operates with representatives of the KBC's internal audit in the preparation and development of methodological bases of work, training of staff and introducing the best internal auditing practice. The KBC's internal auditors co-operate as experts in the audits performed by the Internal Audit.

Key activities in 2005

In 2005, the Internal Audit performed 42 regular and 13 extraordinary audits, as well as 78 audits of exchange offices. It also regularly monitored the implementation of audit recommendations issued by the Internal Audit, the Bank of Slovenia and the external auditor. The Internal Audit also spent a lot of time checking the efficiency of preparations for introduction of the euro, the introduction of new information support, streamlining of existing information architecture and auditing of operations of other NLB Group members. Other activities mainly involved:

- co-ordination of inspections of operations by the Bank of Slovenia;
- monitoring of and reporting on the implementation of recommendations issued by the Bank of Slovenia;
- co-ordination of the implementation of the audit of the Bank's and the Group's Annual Report;
- implementation of control checks in contractual exchange offices and bank credit providers based on the decision of the Bank of Slovenia; and
- transposing standards, work methodologies and know-how to internal audit services in the Group with the aim of harmonising their work with the procedures of the Internal Audit.

A hand holding bubbles in a field at sunset. The background is a lush green field with a line of trees and hills in the distance, all bathed in the warm, golden light of a setting sun. Numerous clear, iridescent bubbles are floating in the air, some held by the hand on the left side of the frame. The overall mood is peaceful and nostalgic.

More than
a bank

Taking care of everyone

If one wants to be big, one must know how to be small.

Because we are big, but quick.
Because we are solid, but flexible.
Because we are settled, but innovative.
Because we are serious, but relaxed.
Because we are everywhere - but only where you are as well.

Know why

Human resource management

In NLB Group, treatment of employees represents one of the key factors contributing to the meeting of the Group's strategic objectives. The following priorities were established:

- restructuring and reducing the number of employees;
- the development and training of employees;
- stimulating the mobility of employees within NLB and NLB Group;
- drafting a collective agreement for NLB; and
- taking care of the employees' health and safety at work.

By upgrading development in all areas of HR activity, the Bank implemented the goals of its HP policy: increase the efficiency of the Bank's and the Group's existing HR potential, enable their development and mobility and continue with activities in the field of labour cost management as one of the key elements for improving the Bank's efficiency of operations.

Restructuring and reducing the number of employees

In the last three years the number of employees at NLB has dropped by 359 or 9%. In the same period, the number of employees of NLB Group grew by 50% or 2,800 employees because of its expansion.

NLB ended the year with 3,594 employees, which is 25 less than in 2004. 148 employees left the Bank and 123 new ones were hired.

Among these new employees were mainly frontline profiles, most of them trainees. The number of employees was reduced by limited new employment levels and the organised internal labour market, the so-called internal exchange of employment, on whose basis the Bank covered almost one-half of its HR needs through the internal reallocation of its own employees. The programme of HR restructuring continued. When dismissing older employees and non-frontline profiles (with the possibility of paying compensation for the remaining period until their retirement or severance pay), the Bank has always tried to take into account the interests of both sides the Bank and the employees. Accordingly, the share of frontline profiles, compared to those considered "non-frontline", which is one of the indicators of successful

restructuring, rose to 54.4% which is 3.4% more than in the previous year.

Development and training of employees

Besides ensuring adequate care for the development of all employees, which NLB regards as one of its key tasks, it focuses on the development of more promising staff. At the moment, there are 165 promising employees in the Bank, which regularly monitors the implementation of their career development plans. The Bank directs its promising employees towards mobility within NLB and the Group, focuses on target training, prioritises promotion; it has concluded 19 contracts for post-graduate or specialised studies. It has concluded part-time study contracts with 155 employees, 61% of which are for a university degree or college degree and 39% for postgraduate studies - a master's degree. In 2005, 50 employees completed their studies successfully.

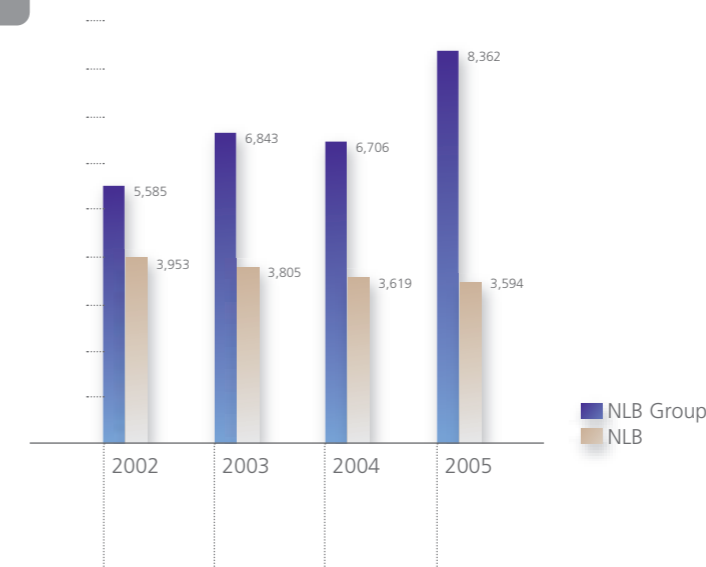
Education structure of NLB's employees

The trend of improving the Bank's education structure continued in 2005 and is presented in the graph below. The Bank tried to influence an improvement in its education structure through HR restructuring, the exclusion of non-traditional banking activities and by supporting and promoting part-time studies.

Education for the needs of NLB and NLB Group

Implementation of the Group's strategic goals and creation of the Bank's competitive advantages are subject to investments in the development of know-how and skills of employees (competence). The Bank's employees have the opportunity to gain the knowledge they need to enhance their efficiency and achieve the set goals, as well as improve their employability in different areas of work.

Picture 31:
→ Number of employees in the NLB Group



Key indicators related to NLB employees at the end of 2005:

- **3,594 employees,**
- **average age of the employees is 41 years and 7 months,**
- **average length of service is 20 years, of this 17 in NLB,**
- **74 percent of the employees are women,**
- **37 percent of the employees have achieved education higher than level V (secondary school).**

10,589 participants from NLB and NLB Group were involved in different studies. Of those, 9,738 came from NLB. The Bank's internal Education Centre organised 112 different educational programmes in which 6,941 people from NLB participated, while a further 1,352 employees took part in various training programmes and obtained new skills on-the-job and there were 1,445 participants in Slovenia and abroad (181 abroad). This means that the internal Education Centre provided 71% of training and education courses, 14% were on-the-job and 15% were in Slovenia or abroad.

From NLB Group, 851 employees took part in internal training programmes organised by NLB, which is 13% more than the year before. There were also 16 longer training courses for employees from individual members of the Group.

The Banking School of NLB Group was organised for the third consecutive year; the Bank thus continued with its systematic certification of training for individual employee profiles: heads of departments and branches, sales officers, technologists, information scientists and operations support personnel.

Special attention was placed on the development of management skills for our managers also at other levels. For the directors of NLB Group, we organised special training courses in which they obtained information on the New Collective Agreement and internal acts in the area of HRM, learned about the rules and characteristics of the Slovenian advertising space, the personality of a leader and business forecasts for managers. Branch network directors obtained new skills in leadership and management workshops, while the heads of departments and branch offices participated in the School for Managers.

Stimulating the mobility of employees within NLB and NLB Group - Internal exchange of employment

In the HR area, the Bank took care of the continuous development of the employees of NLB Group in the scope of the project called "the Group for the Group".

Based on questionnaires regarding staff mobility and selection interviews, the Bank keeps records of those interested in mobility within NLB Group (214 people showed an interest, including 148 from NLB, with the others coming from group members). The criteria for reallocating employees to members of NLB Group have been harmonised and a concept of monthly reporting on the implementation of goals and tasks has been put in place. 14 employees were reallocated from NLB to NLB Group.

In the scope of harmonising the HR policy, systems and other HR rules, special emphasis was laid on:

- the alignment of corporate collective agreements of the Slovenian members with NLB's own collective agreement;
- revision of internal documents in the area of salaries and job systemisation in the Slovenian members of the Group;
- alignment of the system of HR housing loans for key personnel of NLB Group;
- advisory services for group members in the preparation of job systemisation, wage policy system and remuneration;
- advisory services for group members in the area of development and staff training; and
- harmonisation of the system of service contracts and monitoring the efficiency of management boards and management in NLB Group.

NLB's Collective Agreement

The Management Board of NLB signed NLB's Collective Agreement which entered into force on 1 February 2005. It lays down the systemic bases for HR management. This was followed by the modernisation of job systemisation, including a reduction of the number of jobs and the creation of new jobs.

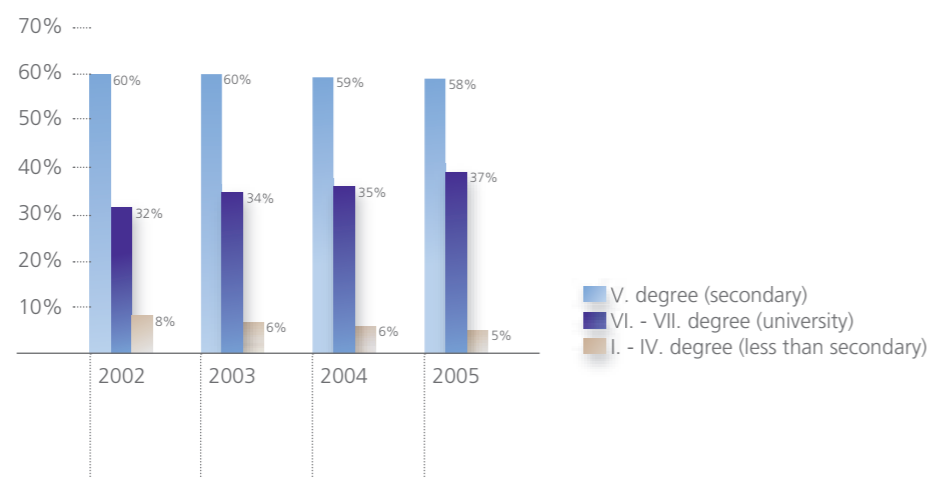
Taking care of the employees' health and safety at work

With the aim of ensuring safe and healthy work, and the employees' well-being, NLB organised the following:

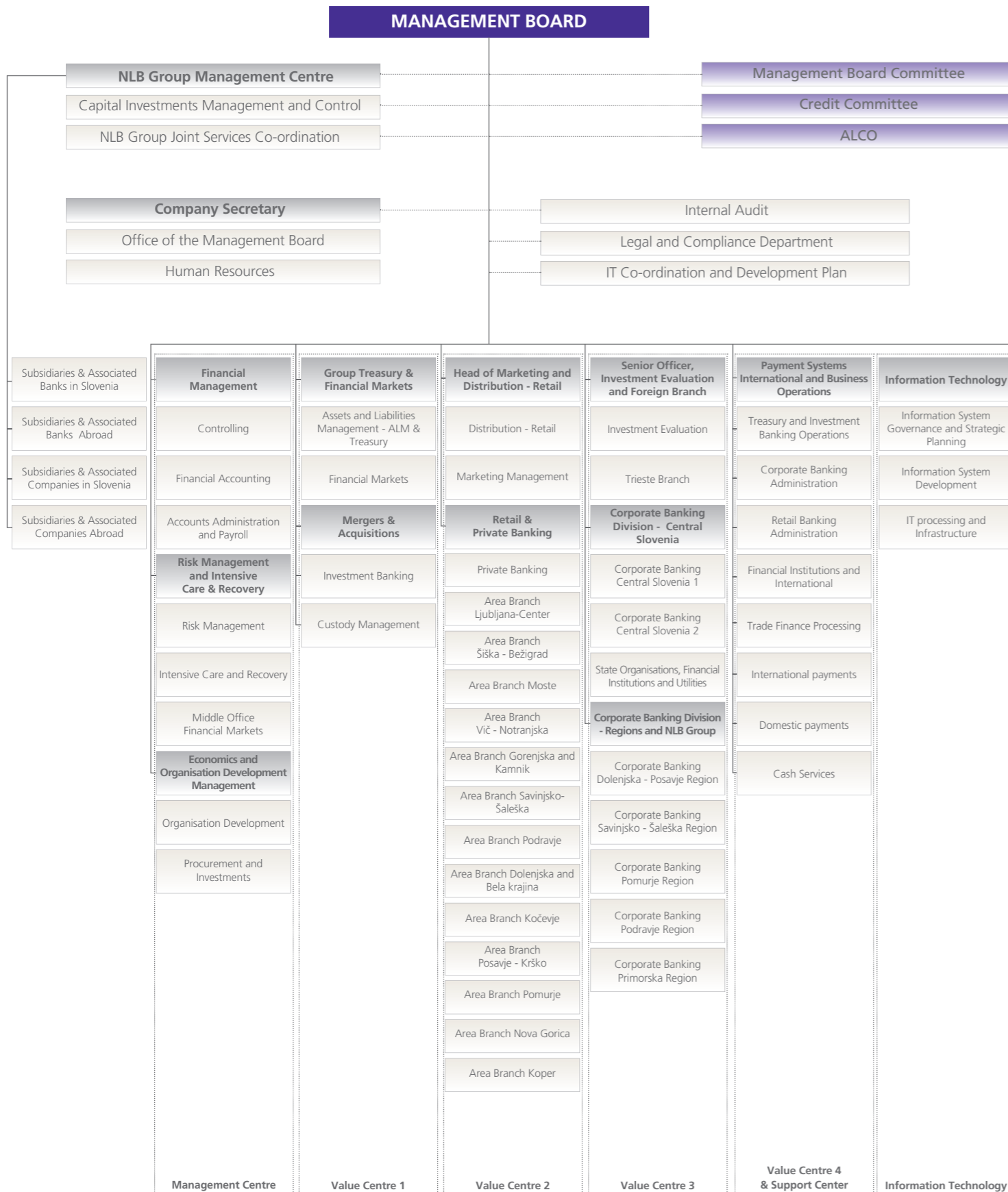
- preventive medical examinations adjusted to the specific needs of individual jobs;
- education and training programmes for obtaining skills for managing stress situations in the work environment; and
- the possibility to engage in various sports activities and participate in sports games of NLB Group.

After a two-year break, NLB again participated in the Slovenian research called the SiOK Project aimed at measuring the organisational climate. More than one hundred Slovenian companies participate in the project. For the first time, the Bank also attracted the subsidiaries of NLB Group to participate (Banka Domžale, Koroška banka, Banka Zaslavje). The average value of the indicators of organisational climate and employee satisfaction in NLB Group is above the SiOK 2005 average.

Picture 32: → Education structure of the NLB employees



Organisational chart of NLB as at March 31, 2006



Sponsorship and donorship activities

Through sponsorship and donor activities, NLB shows its social responsibility and identifies itself as part of the environment in which it operates. NLB's most important campaign in 2005 was organised as part of its charitable activities. Through the Health Insurance Institute of Slovenia, the Bank started a campaign to cut waiting times in hospitals. It donated money for 1,000 cataract operations which were carried out in 2004 and 2005.

The Bank supported more than 750 projects in 2005 which proves it is actively participating in many areas. By carefully selecting the projects it supports, the Bank takes an active part in sporting, cultural and charitable events that eloquently highlight our national identity.

Sport represents the lifestyle of Slovenians and is an important element of their national identity. With its support of individual top athletes and national teams the Bank is seen as an important generator of the success and great achievements of Slovenian athletes. Among others, the Bank is a long-term sponsor of the Slovenian National Alpine Skiing Team, Slovenian handball teams and many sports clubs all over Slovenia.

Cultural events in Slovenia are closely associated with the name Nova Ljubljanska banka d.d., which co-operates with organisers of such events throughout Slovenia. In the course of this longstanding co-operation, the Bank has become an important partner of the organisers of the Ljubljana Jazz Festival, Imago Slovenija, the Ljubljana Summer Festival, the Lent Festival, the Borštnikovo srečanje theatrical event and other prominent events.

The Bank's for Slovenian cultural heritage is also reflected in the fact that it has been compiling an **Art Collection** for a number of decades. This collection comprises major works of art by Slovenian sculptors and painters of the 20th century. The collection is growing constantly and the representative selection of Slovenian artistic creation is expanding quickly. In this way, we contribute significantly to the creation of the national artistic fund together with other museums and galleries.

It also maintains a strong partnership with the Slovenian National Committee for Unicef, which makes the Bank a **humanitarian** partner with a great feeling for the needs of children. The sponsorship support for Slovenia's Reading Badge award and the Bank's concern for improving the reading culture among pre-school and school-age children reflect particularly well its mission built among the young at the broader national level.

I know why

A lasting relationship

Details establish confidence.

Stay.
Stay with me.
Let us stay together.
Stay as you are.
Stay as you are.

I know why

2_a

Financial statements
Slovenian Accounting Standards

Audited Consolidated Financial
Statements for NLB Group

under Slovenian Accounting Standards

Report of the auditors

To the Shareholders and Board of Directors of the Nova Ljubljanska banka d.d., Ljubljana

We have audited the consolidated balance sheet of Nova Ljubljanska banka d.d., Ljubljana and its subsidiaries (the 'Group') as at 31 December 2005 and the related consolidated profit and loss statement, statement of changes in equity and statement of changes in financial position for the year then ended. These financial statements 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. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, consolidated financial statements present fairly, in all material respects, the financial position of Nova Ljubljanska banka d.d., Ljubljana and its subsidiaries (the 'Group') as of 31 December 2005, and the results of its operations and changes in financial position for the year then ended in accordance with Slovenian Accounting Standards.

Ljubljana, 28 April 2006

PricewaterhouseCoopers d.o.o.

Jože Plevnik, certified auditor



Francois Mattelaer, partner

This audit report has been translated from the Slovenian original. This translation is provided for reference purposes only and is not to be signed.


→ Consolidated
income statement

in thousands of tolar	Note	2005	2004
Interest and similar income	4	121,299,828	113,403,572
Interest and similar expense	4	(56,741,299)	(54,770,752)
Net interest and similar income		64,558,529	58,632,820
Income from capital and other investments	5	7,478,150	7,635,530
Fees and commissions income	6	42,526,541	36,154,549
Fees and commissions expense	6	(7,426,618)	(6,579,307)
Net fees and commissions income		35,099,923	29,575,242
Gains from financial transactions	7	55,699,119	62,539,949
Losses from financial transactions	7	(47,565,989)	(52,538,925)
Net profit/(loss) from financial transactions		8,133,130	10,001,024
Other operating income	8	9,988,876	10,312,841
Employee costs	9	(39,047,140)	(36,051,841)
Costs of material and services	10	(23,772,892)	(21,604,138)
Depreciation and revaluation expense from property, equipment and intangible assets	11	(15,241,837)	(12,474,071)
Other operating expenses	12	(8,682,471)	(7,869,264)
Net provisions for losses on loans and write offs less any recoveries	13	(19,294,509)	(17,109,005)
Net provision for general banking risks	35	403,235	(1,948,342)
OPERATING PROFIT		19,622,994	19,100,796
Extraordinary income	14	155,212	136,409
Extraordinary expenses	14	(31,525)	(21,911)
• extraordinary expenses		(31,525)	(21,911)
Extraordinary profit		123,687	114,498
PROFIT BEFORE TAX		19,746,681	19,215,294
Tax on profit	15	(7,888,089)	(8,401,615)
Deferred tax	15	2,201,210	-
Other taxes	15	-	(935,971)
Minority interest	37	(2,146,430)	(1,211,321)
NET PROFIT FOR THE PERIOD		11,913,372	8,666,387

→ Consolidated
balance sheet

in thousands of tolar	Note	31.12.2005	31.12.2004
Cash and balances with the Central Bank	16	131,037,965	75,372,472
Placements with, and loans to, other banks	17	220,957,108	172,952,577
Loans and advances to customers	18	1,632,011,084	1,247,967,984
Debt securities not held for trading	19	614,288,684	587,434,565
Securities held for trading	20	174,151,282	144,248,876
Investments in associated companies and joint ventures	21	12,070,756	11,231,983
Investments in other companies	22	2,086,342	2,505,056
Intangible assets	23	37,595,243	21,492,217
Property and equipment	24	69,188,939	59,785,427
Treasury shares	25	490,825	490,825
Other assets	26	35,307,637	28,210,295
Accrued income and deferred expenses	27	17,020,412	14,874,992
TOTAL ASSETS		2,946,206,277	2,366,567,269
Deposits and borrowings from banks	29	823,333,718	483,593,128
Deposits and borrowings from other customers	30	1,660,235,978	1,473,073,700
Debt securities	31	93,515,512	95,666,379
Other liabilities	32	27,628,721	28,499,312
Accruals and deferred income	33	17,476,542	12,774,804
Provisions for liabilities and charges	34	62,239,931	52,433,906
Provisions for general banking risk	35	9,197,935	9,602,720
Subordinated liabilities	36	103,714,645	72,989,710
Minority interest	37	22,059,545	20,759,773
Subscribed capital	38	15,364,030	15,364,030
Equity reserves	38	13,859,952	13,859,952
Profit reserves	38	68,645,123	66,484,855
Capital revaluation adjustment	38	12,078,194	11,981,605
• general capital revaluation adjustment		11,791,771	11,791,771
• specific capital revaluation adjustment		286,423	189,834
Translation adjustment		(7,583)	399
Retained earnings	38	4,898,311	2,284,543
Net profit for the period	38	11,965,723	7,198,453
TOTAL LIABILITIES		2,946,206,277	2,366,567,269
Off balance sheet	39	1,105,598,858	820,309,543

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


Erik Luts Member of the 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
Marjan Kramar President of the Management Board & CEO

Ljubljana, 28 April 2006

→ Consolidated cash
flow statement

in thousands of tolar	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	174,642,026	170,174,041
Interest and similar income	116,107,721	111,304,106
Fees and commissions income	40,810,205	36,169,724
Recoveries from loans previously written off	682,744	554,184
Income from capital and other investments	6,256,780	6,513,300
Net profit from financial transactions	5,688,451	10,939,168
Other operating income	5,096,125	4,693,559
Outflows from operating activities	(131,482,919)	(134,802,478)
Interest and similar expenses	(54,093,619)	(62,877,539)
Fees and commissions expenses	(6,988,533)	(6,539,811)
Employee costs	(37,596,184)	(36,093,430)
Material and services costs	(22,384,661)	(22,437,008)
Other operating expenses	(1,728,157)	(827,941)
Taxation paid	(8,691,765)	(6,026,749)
Operating income before changes in operating assets and liabilities	43,159,107	35,371,563
(Increase)/decrease in operating assets	(352,933,219)	(318,713,813)
Net increase in loans to banks	(26,223,683)	(86,083,209)
Net increase in loans and advances to customers	(324,871,562)	(223,487,687)
Net decrease/(increase) in securities held for trading	1,434,927	(2,367,036)
Net increase in other operating assets	(3,272,901)	(6,775,881)
Increase/(decrease) in operating liabilities	111,032,469	82,664,110
Net increase/(decrease) in deposits from banks	46,729,882	(28,900,443)
Net increase in deposits from other customers	64,853,635	109,467,183
Net (decrease)/increase in other operating liabilities	(551,048)	2,097,370
Net inflow or net outflow from operating activities	(198,741,643)	(200,678,140)
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows from investing activities	147,169,900	235,879,353
Sale of debt securities	138,294,176	234,280,657
Sale of investments in associated companies and other companies	5,444,119	1,316,324
Sale of property equipment and intangible assets	3,431,605	282,372
Outflows from investing activities	(144,589,723)	(106,578,179)
Purchase of debt securities	(131,650,381)	(91,777,063)
Purchase of investments in associated companies and other companies	(3,034,882)	(3,145,391)
Purchase of property, equipment and intangible assets	(9,904,460)	(11,655,725)
Net inflow or net outflow from investing activities	2,580,177	129,301,174
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	937,694,113	1,004,573,809
Borrowings from banks and other customers	866,034,314	916,728,497
Increase in debt securities and subordinated liabilities (issue)	71,659,799	87,845,287
Sale of treasury shares	-	25
Outflows from financing activities	(620,350,149)	(885,756,671)
Dividends paid	(3,599,075)	(3,162,816)
Debt repayments	(580,693,429)	(801,834,260)
Decrease in debt securities and subordinated liabilities (redemption)	(36,057,645)	(80,759,595)
Net inflow or net outflow from financing activities	317,343,964	118,817,138
Effect of exchange rate changes on cash and cash equivalents	4,495,661	1,339,383
CASH AND CASH EQUIVALENTS AT END OF PERIOD	656,909,825	531,231,666
Financial result for the period	125,678,159	48,779,555
Cash and cash equivalents at beginning of period	531,231,666	482,452,111

→ Consolidated statement
of changes in equity

in thousands of tolar	2005									
	Subscribed capital	Equity reserves	Profit reserves	Treasury shares reserve	Retained profits	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit for the period	Total for the shareholders equity	Translation adjustment
Balance at 1 January 2005	15,364,030	13,859,952	65,994,030	490,825	2,284,543	11,791,771	189,834	7,198,852	117,173,837	226,133
Transfer to equity	-	-	-	-	507,425	-	96,589	11,935,188	12,539,202	486,905
Specific capital revaluation	-	-	-	-	-	-	96,029	-	96,029	-
Net profit for the period	-	-	-	-	-	-	-	11,913,372	11,913,372	-
Other	-	-	-	-	42,896	-	-	-	42,896	-
Increase in foreign exchange differences	-	-	-	-	464,529	-	560	21,816	486,905	486,905
Transfers within equity	-	-	2,167,272	-	2,106,343	-	-	(4,273,615)	-	-
Allocation of net profit for the period	-	-	999,175	-	(61,907)	-	-	(937,268)	-	-
Settlement of losses with profit for the period	-	-	-	-	35,545	-	-	(35,545)	-	-
Settlement of losses with profit reserves and other equity components	-	-	-	-	(37,740)	-	-	37,740	-	-
Other	-	-	1,168,097	-	2,170,445	-	-	(3,338,542)	-	-
Transfers from equity	-	-	(7,004)	-	-	-	-	(2,902,285)	(2,909,289)	(14,587)
Dividends paid	-	-	-	-	-	-	-	(2,740,397)	(2,740,397)	-
Other	-	-	-	-	-	-	-	(154,305)	(154,305)	-
Decrease in foreign exchange differences	-	-	(7,004)	-	-	-	-	(7,583)	(14,587)	(14,587)
Balance at 31 December 2005	15,364,030	13,859,952	68,154,298	490,825	4,898,311	11,791,771	286,423	11,958,140	126,803,750	698,451

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2004										
in thousands of tolar	Subscribed capital	Equity reserves	Profit reserves	Treasury shares reserve	Retained profits	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit for the period	Total shareholders equity	Translation adjustment
Balance at 1 January 2004	15,364,030	13,859,929	63,589,253	490,828	2,497,429	11,791,771	190,327	2,785,787	110,569,354	194,233
Transfer to equity	-	23	150,308	-	86,855	-	-	8,773,467	9,010,653	99,560
Net profit for the period	-	-	-	-	-	-	-	8,666,387	8,666,387	-
Other	-	23	106,025	-	31,578	-	-	107,080	244,706	-
Increase in foreign exchange differences	-	-	44,283	-	55,277	-	-	-	99,560	99,560
Transfers within equity	-	-	2,254,469	(3)	(285,414)	-	-	(1,969,052)	-	-
Allocation of net profit for the period	-	-	357,467	-	-	-	-	(357,467)	-	-
Settlement of losses with profit for the period	-	-	-	-	34,375	-	-	(34,375)	-	-
Settlement of losses with profit reserves and equity components	-	-	(27,081)	-	(143,045)	-	-	170,126	-	-
Elimination of treasury shares reserves and return to original equity components	-	-	-	(3)	3	-	-	-	-	-
Other	-	-	1,924,083	-	(176,747)	-	-	(1,747,336)	-	-
Transfers from equity	-	-	-	-	(14,327)	-	(493)	(2,391,350)	(2,406,170)	(67,660)
Dividends paid	-	-	-	-	-	-	-	(2,187,374)	(2,187,374)	-
Other	-	-	-	-	(14,327)	-	(493)	(136,316)	(151,136)	-
Decrease in foreign exchange differences	-	-	-	-	-	-	-	(67,660)	(67,660)	(67,660)
Balance at 31 December 2004	15,364,030	13,859,952	65,994,030	490,825	2,284,543	11,791,771	189,834	7,198,852	117,173,837	226,133

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 2005. The management also confirm that applicable legislation and Slovenian Accounting 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.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties.

Management Board

					
Erik Luts Member of the 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	Marjan Kramar President of the Management Board & CEO

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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 35.41% 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 2005 was 2.3% (year 2004: 3.2%). The exchange rate changed from 239.7 tolar to the euro at 31 December 2004 to 239.6 tolar to the euro at 31 December 2005, and from 176.2 tolar to the US dollar at 31 December 2004 to 202.4 tolar to the US dollar at 31 December 2005.

All amounts are expressed in thousand of tolar unless otherwise specified.

1. SIGNIFICANT ACCOUNTING POLICIES

The Nova Ljubljanska banka d.d., Ljubljana Group ("the Group") consolidated financial statements are 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 41, except SIB banka, which is in process of liquidation.

Subsidiary undertakings, which are those companies in which the Group, 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. Intercompany transactions, balances and unrealized surpluses and deficits on transactions between group companies have been eliminated. Separate disclosure is made of minority interests.

On acquisition of a subsidiary, the Group 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, and is amortized to the income statement over a period of five years. Any excess of the fair values of net assets acquired over the cost of acquisition is presented as negative goodwill and it is recognized as income on a systemic basis over the period of five years. Goodwill and excess which is lower than 50 million tolar is recognised in income statement immediately.

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 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.

Regarding associates, negative goodwill is included in the carrying amount of an investment in an associate over a period of five years, while goodwill is included in carrying amount and it is transferred into expenses over the period of five years.

Jointly controlled entities are companies established by contractual agreement. Investment in jointly controlled companies are accounted for using the equity method of accounting.

b) Translation of 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 translation 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 group 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. Income from non-performing assets (C, D and E grading groups) is excluded until paid, and reported as allowances for bad and doubtful receivables 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 Group'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 recognized 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 recognized 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 favorable to the Group or other liabilities when unfavorable 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 recognized in the income statement immediately. Gains are recognized 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 recognized in the income statement on the same basis as the corresponding change in the fair value of the hedged item. Profits from the derivatives are recognised to the extent of losses on hedged item in accordance with prudence principle.

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.

The income statement includes foreign exchange differences from certain financial derivatives, which are providing effective economic hedges in respect of foreign currency risk exposure.

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 recognized 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 capitalized 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 capitalized 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 end Off-Balance sheet Items of Banks and Saving Banks. Specific credit risk provisions on loans and advances to customers classified in the rating groups B, C, D or E are stated on the asset side of the balance sheet as allowances for bad or 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, foreign exchange risk and operating 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 members, after all necessary procedures for recovery have been completed. Any eventual subsequent repayments of loans and advances previously written off are recognized as income.

m) Provisions for liabilities and charges

Provisions for obligations that are expected to occur in the period exceeding one year are recognized 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 recognized 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. 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:

%	2005	2004
Buildings	2 - 5	2 - 5
Computers	14.3 - 50	14.3 - 50
Furniture and equipment	10 - 33.3	10 - 33.3
Motor vehicles	12.5 - 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 recognized 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 amortized over a period 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 realizable 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 and securities held for trading, loans to banks and debt securities not held for trading with maturity up to 90 days.

Basis for the preparation of the consolidated cash flow statement are the consolidated financial statements with all notes and other necessary data collected for the purpose of the preparation of the cash flow statement of the Group. Cash flow statement is prepared using the direct method.

t) Tax on profit and deferred tax

Income tax consists of current and deferred tax.

Income tax is calculated by each Group member according to local legislation. Balance sheet tax was abolished in the year 2005.

Deferred tax is calculated for all temporary differences between accounting profit and taxable profit. Deferred tax asset is recognised for all deductible temporary differences only if it is probable that the taxable profit will be available against which the temporary differences can be utilised.

u) Funds managed on behalf of third parties

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

Goodwill on acquisition and contribution of these banks to the Group's profit and balance sheet is presented below:

in thousands of tolar	Goodwill	Contribution to the Group's profit*	Contribution to the Group's balance sheet
Euromarket banka	914,775	(9,077)	11,853,189
Continental banka	5,257,540	260,984	34,918,660
Tuzlanska banka	5,789,923	160,770	42,605,823
Razvojna banka	5,737,912	195,374	45,423,823

* before depreciation of goodwill

v) Segmental reporting

Business and geographical segments provide products or services that are subject to risk and returns that are different from those of other business segments.

2. CHANGES IN THE SCOPE OF CONSOLIDATION

In the year 2005 the following changes occurred which had impact on the consolidated financial statements.

a) Acquisitions

The most important acquisitions in the year 2005 were performed on the region of ex Yugoslav republic, that is:

- 80.29 % interest in Euromarket banka a.d., Podgorica,
- 98.77 % interest in Continental banka a.d., Novi Sad,
- 83.54 % interest in Tuzlanska banka a.d., Tuzla and
- 92.42 % interest in Razvojna banka a.d., Banja Luka.

For all above-mentioned banks, except for Continental banka, the mergers with existent banks on those regions were expected. On 1 January 2006 Euromarket banka already successfully merged with Montenegro bank, Razvojna banka merged with LHB Bank Banja Luka on 1 April 2006, while the merger of Tuzlanska banka with CBS bank is expected on 1 July 2006.

b) Acquisition in existing banks

NLB increased its ownership interest in following banks:

- in Banka Domžale from 59.80% to 65.98%, goodwill in the amount of 181,022 thousand tolar was calculated.
- in Koroška banka from 61.7% to 62.54%, goodwill in the amount of 15,885 thousand tolar was calculated.
- in Banka Zasavje from 66.59% to 70.80%, negative goodwill in the amount of 1,122 thousand tolar was calculated.
- in LHB Bank Beograd from 60.38% to 66.95%, goodwill in the amount of 180,852 thousand tolar was calculated.
- in Tutunska banka, Skopje from 73.12% to 74.19%, negative goodwill in the amount of 30,741 thousand tolar was calculated.
- in Banka Celje from 30.50% to 30.62%, goodwill in the amount of 16,151 thousand tolar was calculated.

c) Foundations of new subsidiaries

In the year 2005 the following subsidiaries were founded:

- LB Leasing, Ljubljana founded 100 % subsidiaries LB Leasing, Podgorica and Optima Leasing, Zagreb,
- Prvi Faktor, Ljubljana founded 100 % subsidiary Prvi Faktor, Beograd,
- NLB with 51% ownership interest and Tutunska banka with 49% ownership interest founded subsidiary Nov Penziski fond, Skopje.

3. 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.

NLB d.d. signed in April 2006 a contract with foreign banks for syndicated loan in the amount of 168 billion tolar with the maturity 5 years. This event represents the biggest international loan arrangement in Slovenia and one of the most significant loan arrangements in the Central and Eastern Europe financial markets. Syndicate involves 35 foreign banks from 18 countries and 5 continents. Loan will be used to finance Slovenian companies under more competitive conditions.

From 1 January 2006 the banks in Slovenia will legally switch to IFRS. Therefore the financial statements of the Group under IFRS will become its statutory financial statements. Equity of the Group will increase by 56,673 million tolar as a result of switch to IFRS.

4.
→ Interest income
and expense

a) Analysis by type of assets and liabilities

in thousands of tolar	2005	2004
Interest income		
Deposits with Central Bank	4,124,014	1,734,158
Placements with, and loans to, other banks	2,374,698	1,781,331
Loans, advances and deposits to customers	87,408,291	78,155,830
Deposits to banks	2,738,500	1,988,072
Debt securities not held for trading	23,373,925	29,480,245
Other assets	1,280,400	263,936
TOTAL	121,299,828	113,403,572
Interest expense		
Demand deposits	4,429,625	3,171,765
Short-term deposits	21,712,432	21,618,468
Long-term deposits	8,579,197	12,353,571
Borrowings	12,843,543	9,303,630
Debt securities	8,304,942	7,880,967
Other liabilities	871,560	442,351
TOTAL	56,741,299	54,770,752
NET INTEREST AND SIMILAR INCOME	64,558,529	58,632,820

b) Analysis by sector

in thousands of tolar	2005		2004	
	Income	Expenses	Income	Expenses
Enterprises	36,540,371	5,896,691	35,768,322	7,289,034
Government departments and agencies	11,688,004	2,419,632	15,073,012	2,952,559
Banks	21,094,475	21,678,008	21,842,596	14,869,385
Citizens	23,714,820	16,478,408	22,529,716	20,291,338
Other financial organizations	514,227	4,966,849	459,742	5,930,845
Non-residents	25,306,785	4,945,024	15,502,773	2,981,752
Non-profit service providers to households	41,010	343,980	52,723	335,256
Default interest	2,400,136	12,707	2,174,688	120,583
TOTAL	121,299,828	56,741,299	113,403,572	54,770,752

5.
→ Income from capital
and other investments

in thousands of tolar	2005	2004
Income from investments in associated companies		
• Banks	1,544,425	1,422,030
• Enterprises	95,282	179,932
• Other financial organizations	151,929	60,835
Income from investments in other companies		
• Banks	3,046	3,546
• Enterprises	47,632	294
• Other financial organizations	18,482	31,922
Income from securities held for trading		
• Interest income	5,071,530	5,559,639
• Dividends received	545,824	377,332
TOTAL	7,478,150	7,635,530

6.
→ Income and expense from
fees and commissions

in thousands of tolar	2005	2004
Fees and commissions income		
Payments	13,005,981	11,139,355
Agency services	8,981,791	8,018,862
Administrative services	8,762,827	7,319,377
Lending	7,549,045	5,732,604
Guarantees	2,663,594	2,835,027
Investment funds	946,540	676,984
Depositing valuables and safe custody	226,776	201,008
Other services	389,987	231,332
TOTAL	42,526,541	36,154,549
Fees and commissions expense		
Banking services	4,631,826	4,324,211
Agency services	1,621,742	1,457,266
Payments	515,314	414,074
Brokerage	296,779	215,960
Other services	360,957	167,796
TOTAL	7,426,618	6,579,307
NET FEES AND COMMISSIONS	35,099,923	29,575,242

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7.
→ Net profit from
financial transactions

in thousands of tolar	2005	2004
Income from financial transactions		
Income from dealing in securities held for trading	7,742,734	7,491,522
Income from valuation of securities		
• debt securities not held for trading	764,245	140,467
• securities held for trading	1,176,264	878,638
• investments in other companies	547,716	365,377
• investments in associated companies and joint ventures	14,558	-
• other	7,529	1,345
Foreign exchange differences	30,951,052	36,716,060
Income from derivative financial instruments	7,370,542	6,626,179
Income from dealing in foreign currency	7,124,479	10,320,361
TOTAL	55,699,119	62,539,949
Losses from financial transactions		
Expenses from dealing in securities held for trading	427,940	257,720
Expenses from valuation of securities:		
• debt securities not held for trading	780,788	64,737
• securities held for trading	1,792,618	1,116,879
• investments in other companies	84,360	270,632
• investments in associated companies	23,952	-
• other	449,103	181,847
Foreign exchange differences	29,132,830	35,171,180
Expenses in derivative financial instruments	10,633,945	7,704,139
Expenses in dealing in foreign currency	4,240,453	7,771,791
TOTAL	47,565,989	52,538,925
NET PROFIT FROM FINANCE TRANSACTIONS	8,133,130	10,001,024

8.
→ Other
operating income

in thousands of tolar	2005	2004
Income from non-banking services	3,565,254	2,815,852
Income from sales of products and merchandise	4,268,920	5,117,648
Income from sale of property and equipment	473,469	387,598
Income from investment property rents	592,209	609,728
Other operating income	1,089,024	1,382,015
TOTAL	9,988,876	10,312,841

9.
→ Employee costs

in thousands of tolar	2005	2004
Gross salaries	27,623,912	24,805,097
Social security costs		
• pension security contributions	2,346,129	2,189,116
• social security contributions	2,166,667	2,005,111
• other contributions	1,617,861	1,527,849
Other employee costs	5,292,571	5,524,668
TOTAL	39,047,140	36,051,841

Other employee costs include costs such as a vacation bonus, compensation for the transport and contribution for the retirement benefits.

10.
→ Costs of material
and services

in thousands of tolar	2005	2004
Services	11,030,701	9,368,427
Materials	3,333,608	3,384,546
Maintenance	2,889,117	2,882,923
Rents	2,224,806	2,401,535
Advertising	1,556,331	1,142,593
Insurance	1,222,811	1,039,801
Travel costs	729,529	598,780
Entertainment expenses	378,476	393,099
Education and scholarships	313,450	354,258
Other expenses	94,063	38,176
TOTAL	23,772,892	21,604,138

11.
→ Depreciation and revaluation
expenses from property, equipment
and intangible assets

in thousands of tolar	2005	2004
Depreciation of property and equipment	6,548,257	6,448,824
Depreciation of intangible assets	2,918,497	2,318,416
Revaluation expenses from equipment and intangible assets (note 23)	3,749,949	3,230,609
Goodwill	2,025,134	476,222
TOTAL	15,241,837	12,474,071

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12.
→ Other operating
expenses

in thousands of tolar	2005	2004
Cost of sold merchandise	4,215,454	4,878,301
Long term provisions made	2,397,999	1,129,313
Taxes	249,896	193,598
Revaluation expenses	1,156,209	971,520
Membership fees and similar expense	411,886	373,251
Other operating expenses	251,027	323,281
TOTAL	8,682,471	7,869,264

Revaluation expenses include revaluation of employee costs in the amount of 1,016,271 thousand tolar (2004: 767,888 thousand tolar) and impairment of inventories in the amount of 78,314 thousand tolar (2004: 128,266 thousand tolar).

In the year 2005 the Group established provisions in the amount of 1,095,315 thousand tolar presenting estimated obligation to return premiums to Residential fund of the Republic of Slovenia in the case clients would decide not to raise a loan under the conditions granted by the national saving scheme.

In the year 2005 the Group established restructuring provisions in the amount of 600,000 thousand tolar according to the decision to continue further the employee restructuring process in order to reduce the operating expenses.

13.
→ Net provisions for losses
on loans and write offs
less any recoveries

a) Provisions and write offs

in thousands of tolar	2005		2004	
	Provisions made	Provisions released	Provisions made	Provisions released
Write offs	3,153,700	-	4,949,557	-
Recoveries	-	682,744	-	554,184
Provisions for A graded balance sheet and off-balance sheet assets	14,630,041	10,790,797	10,603,791	9,449,025
Provisions for other off-balance sheet assets	20,567,589	21,878,728	18,652,120	16,770,366
Country risk provisions	16,380,718	11,655,245	15,762,112	13,273,216
Provisions for balance sheet assets, classified in other credit rating groups				
• loans to banks	3,579,812	2,993,209	2,266,512	1,792,121
• loans to other customers	52,291,445	43,308,967	46,955,086	40,599,827
• other loans	2,983,903	1,963,885	2,884,736	2,650,887
• interest claims	3,970	-	39,403	-
Provisions for offsetting by groups	-	-	52,962	52,962
Provisions for non-credit risk	-	376,211	580,000	-
	113,591,178	93,649,786	102,746,279	85,142,588
TOTAL a)		(19,941,392)		(17,603,691)

b) Other provisions

in thousands of tolar	2005		2004	
	Provisions made	Provisions released	Provisions made	Provisions released
Negative goodwill	-	313,051	-	458,765
Other long-term provisions	-	333,832	-	35,921
TOTAL b)	-	646,883	-	494,686
TOTAL a) + b)	113,591,178	94,296,669	102,746,279	85,637,274
TOTAL		(19,294,509)		(17,109,005)

Negative goodwill includes income from the amortisation of a negative goodwill that arose from the merger of two Slovenian banks in year 2001, from the acquisition of Montenegrobanka in year 2003 and increase in ownership interest in Tutunska banka in year 2005.

14.
→ Extraordinary income
and expenses

in thousands of tolar	2005	2004
Extraordinary income		
Indemnities, rewards and similar income	155,212	136,409
TOTAL	155,212	136,409
Extraordinary expenses		
Fines, penalties and similar expenses	31,525	21,911
TOTAL	31,525	21,911
EXTRAORDINARY PROFIT	123,687	114,498

15.
→ Tax

in thousands of tolar	2005	2004
Tax on profit	7,406,413	7,847,552
Deferred tax	(2,201,210)	-
Balance sheet tax	-	935,971
Share of tax of associated companies	481,676	554,063
TOTAL	5,686,879	9,337,586

Deferred tax asset is recognised for temporary differences relating to expenses from the revaluation of securities and creation of provisions.

16.
→ Cash and balances with
the central bank

in thousands of tolar	31.12.2005		31.12.2004	
	in SIT	Foreign currency	in SIT	Foreign currency
Cash	12,742,044	15,513,324	12,838,683	7,672,696
Balances with Central bank	51,843,113	49,808,501	36,801,789	17,340,075
Other deposits	-	1,130,983	-	719,229
	64,585,157	66,452,808	49,640,472	25,732,000
TOTAL		131,037,965		75,372,472

Slovenian banks are 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 2% for all time deposits to 2 years. In December 2005, the basis for the obligatory reserve of the Group amounted to 68,071,706 thousand tolar.

17.
→ Placements with, and
loans to, other banks

a) Maturity analysis

in thousands of tolar	31.12.2005	31.12.2004
Short-term loans		
• in tolar	5,070,073	4,011,064
• in foreign currency	102,141,441	67,703,371
Long-term loans		
• in tolar	92,760,806	79,317,443
• in foreign currency	20,406,873	20,816,420
Current portion of long-term loans		
• in tolar	-	57,827
• in foreign currency	4,586,442	4,504,784
	224,965,635	176,410,909
Provisions	(4,008,527)	(3,458,332)
TOTAL	220,957,108	172,952,577

For a detailed maturity analysis of Placements with, and loans to other banks refer to note 45 - Balance sheet maturity analysis.

b) Analysis by type of loan

in thousands of tolar	31.12.2005	31.12.2004
Demand deposits	30,716,700	14,930,957
Time deposits	140,192,758	114,034,721
Loans	51,597,630	44,631,008
Called guarantees	23,854	21,936
Acquired claims and other investments	2,434,693	2,792,287
	224,965,635	176,410,909
Provisions	(4,008,527)	(3,458,332)
TOTAL	220,957,108	172,952,577

c) Geographical analysis

in thousands of tolar	31.12.2005	31.12.2004
Slovenia	116,817,796	97,541,972
OECD countries	47,635,740	42,490,106
Other countries	56,503,572	32,920,499
TOTAL	220,957,108	172,952,577

d) Loans to associated and other related banks

Loans extended to associated and other related banks as at 31 December 2005 amounted to 17,676,445 thousand tolar (11,696,764 thousand tolar as at 31 December 2004).

e) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	172,952,577	130,486,015
Consolidation of new subsidiaries	12,665,844	-
Exchange differences on opening balance of subsidiaries	325,893	(118,651)
Increase:		
• loans made	12,920,082,854	6,627,757,670
• interest added to principal	8,219	3,633
• exchange differences	2,953,232	(458,176)
Decrease:		
• repayments	(12,887,118,337)	(6,584,012,099)
• write offs	(326,571)	(231,424)
Provisions	(586,603)	(474,391)
Balance at 31 December	220,957,108	172,952,577

18.
→ Loans and
advances to customers

a) Analysis by type of customer

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
In tolar				
• enterprises	132,654,566	228,053,085	147,642,434	216,460,548
• government departments and agencies	3,977,170	22,909,708	277,253	28,908,242
• citizens	49,739,349	206,038,489	45,602,592	205,199,704
• financial organisations	5,114,390	1,449,000	4,403,398	1,606,139
• non- profit household service providers	313,003	169,513	350,826	258,357
• non residents	4,077	-	-	-
In foreign currency				
• enterprises	141,077,519	389,536,903	80,651,607	287,344,631
• government departments and agencies	31	1,832,771	19,479	1,569,302
• citizens	2,621,796	76,597,013	674,200	13,083,065
• financial organisations	13,591,244	3,605,467	4,282,976	1,864,259
• non residents	169,407,164	276,542,372	124,056,034	152,759,453
• non- profit household service providers	5,103	183,118	-	-
Current portion of long-term loans				
• in tolar	125,093,929	(125,093,929)	120,878,167	(120,878,167)
• in foreign currency	126,196,520	(126,196,520)	90,049,441	(90,049,441)
	769,795,861	955,626,990	618,888,407	698,126,092
Provisions	(54,409,246)	(39,002,521)	(45,880,624)	(23,165,891)
TOTAL	1,632,011,084	1,247,967,984		

The total amount of non-performing loans (C, D and E grading groups) amounted to 105,166,737 thousand tolar as at 31 December 2005 (87,092,748 thousand tolar as at 31 December 2004), while loans overdue amounted to 34,085,002 thousand tolar (22,575,610 thousand tolar as at 31 December 2004). Interest income from non-performing loans, not recognized as income, amounted to 6,210,456 thousand tolar as at 31 December 2005 (5,912,122 thousand tolar as at 31 December 2004).

b) Analysis by sector

in thousands of tolar	31.12.2005	31.12.2004
Manufacturing and mining	471,761,142	361,518,341
Citizens	352,562,446	257,123,415
Trade and finance	275,546,427	207,236,996
Services	328,645,969	256,552,585
Government departments and agencies	30,782,817	31,287,602
Energy	16,353,452	17,905,627
Transport and communication	87,742,078	75,811,869
Small businesses	43,089,542	34,104,588
Construction	79,725,211	50,629,561
Agriculture, forestry and fishery	32,714,104	15,753,779
Other	6,499,663	9,090,136
	1,725,422,851	1,317,014,499
Provisions	(93,411,767)	(69,046,515)
TOTAL	1,632,011,084	1,247,967,984

c) Guaranteed loans

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

in thousands of tolar	31.12.2005	31.12.2004
Loans:		
• with the guarantee of the Republic of Slovenia	72,775,516	79,081,365
• with the guarantee of other Slovenian banks	27,262,502	3,788,164
TOTAL	100,038,018	82,869,529

d) Analysis by type of advance

in thousands of tolar	31.12.2005	31.12.2004
Loans	1,531,437,189	1,171,367,254
Overdrafts	69,541,262	58,006,523
Finance lease receivables	69,367,681	43,911,245
Called guarantees	1,899,577	1,591,791
Acquired claims and other investments	53,177,142	42,137,686
	1,725,422,851	1,317,014,499
Provisions	(93,411,767)	(69,046,515)
TOTAL	1,632,011,084	1,247,967,984

e) Loans to associated and other related parties

Loans extended to associated and other related parties as at 31 December 2005 amounted to 34,802,934 thousand tolar (8,700,358 thousand tolar as at 31 December 2004).

f) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	1,247,967,984	1,035,545,234
Consolidation of new subsidiaries	58,954,165	-
Exchange differences on opening balance of subsidiaries	762,737	1,725,308
Increase:		
• loans made	2,449,878,398	2,069,083,666
• interest added to principal	18,199,801	21,691,903
• exchange differences	5,116,030	1,500,010
Decrease:		
• repayments	(2,137,861,597)	(1,870,977,373)
• write offs	(1,974,653)	(4,265,238)
Provisions	(9,031,781)	(6,335,526)
Balance at 31 December	1,632,011,084	1,247,967,984

19.
→ Debt securities not held
for trading

a) Analysis by type of securities, available for sale

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
• certificates of deposits of the Bank of Slovenia	161,975,658	-	204,120,648	-
• certificates of deposits of other banks	8,591,777	-	1,644,166	-
• bonds of the Republic of Slovenia	-	1,438,133	-	2,661,441
• bonds of the Republic of Croatia	-	95,305	-	112,181
• bonds of the Republic of Macedonia	-	5,130,658	-	902,656
• bonds of the Republic of Bosnia & Herzegovina	-	34,881	-	132,452
• bonds of the Republic of Serbia & Montenegro	-	628,447	-	417,461
• other securities	1,578,398	111,583,475	1,817,191	78,249,770
In tolar				
• bonds of the Republic of Slovenia	-	146,191,590	-	143,213,025
• certificates of deposits of the Bank of Slovenia	158,503,455	-	113,135,449	-
• other securities	23,181	9,364,125	8,728	3,664,458
Current portion for securities, available for sale	18,989,042	(18,989,042)	11,080,379	(11,080,379)
	349,661,511	255,477,572	331,806,561	218,273,065
TOTAL a)		605,139,083		550,079,626

The market value of debt securities held for trading as at 31 December 2005 is higher than their carrying amount by 4,092,689 thousand tolar (6,292,871 thousand tolar as at 31 December 2004).

Other securities include bonds with a total value of 1,235,031 thousand tolar, which have the nature of a subordinated debt. Other than interest entitlement and the right to repayment of the principal the Group does not have any other rights deriving from these bonds.

The Group had as at 31 December 2005 in the debt securities portfolio own bonds in the amount of 9,389,031 thousand tolar (31 December 2004: 993,000 thousand tolar).

b) Analysis by type of securities, held to maturity

in thousands of tolar	Short-term	Long-term	Short-term	Long-term
In foreign currency				
• bonds of the Republic of Slovenia	-	676,926	-	999,454
• other bonds	-	8,472,675	-	4,892,879
In tolar				
• bonds of the Republic of Slovenia	-	-	-	31,462,606
Current portion	676,926	(676,926)	400,791	(400,791)
TOTAL b)	676,926	8,472,675	400,791	36,954,148
TOTAL a) + b)	614,288,684		587,434,565	

The total amount of debt securities not held for trading as at 31 December 2005 includes listed securities in the amount of 211,475,635 thousand tolar (163,954,533 thousand tolar as at 31 December 2004).

In the year 2005 the government of the Republic of Slovenia redeemed bonds RS06, which contained call option.

c) Analysis of movement

in thousands of tolar	2005	2004
Balance at 1 January	587,434,565	666,318,633
Consolidation of new subsidiaries	477,388	-
Exchange differences on opening balance of subsidiaries	78,519	829,722
Increase:		
• acquisition of securities	1,138,299,133	511,267,895
• interest added to principal and foreign exchange differences	4,705,355	7,305,553
Decrease:		
• sale of securities	(1,126,118,075)	(598,081,610)
• transfer to securities held for trading	-	(276,690)
• transfer from securities held for trading	9,343,882	-
Reversal of impairment	67,917	71,062
Balance at 31 December	614,288,684	587,434,565

20.
→ Securities held
for trading

a) Analysis by type of securities

in thousands of tolar	31.12.2005	31.12.2004
Certificates of deposits of the Bank of Slovenia	35,500,000	18,685,247
Bonds		
• Republic of Slovenia	36,609,728	43,342,170
• other bonds	69,565,159	48,280,696
Shares		
• banks	3,189,286	356,989
• other shares	20,395,844	22,490,601
Treasury bills	6,235,462	6,371,848
Other securities	2,655,803	4,721,325
TOTAL	174,151,282	144,248,876

The total amount of securities held for trading as at 31 December 2005 includes listed securities in the amount of 126,172,272 thousand tolar (100,518,792 thousand tolar as at 31 December 2004).

The market value of securities held for trading as at 31 December 2005 is higher than their carrying amount by 3,248,817 thousand tolar (6,142,676 thousand tolar as at 31 December 2004).

Other securities include bonds with a total value of 101,949 thousand tolar (102,387 thousand tolar as at 31 December 2004), which have the nature of a subordinate debt. Other than interest entitlement and the right to repayment of the principal the Group does not have any other rights deriving from these bonds.

The Group had as at 31 December 2005 in the debt securities portfolio own bonds in the amount of 955,232 thousand tolar (31 December 2004: 2,802,984 thousand tolar).

b) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	144,248,876	110,608,990
Consolidation of new subsidiaries	1,456	-
Exchange difference on opening balance of subsidiaries	(2,158)	(75,978)
Increase:		
• acquisition of securities	475,473,607	368,314,847
• transfer from debt securities	-	276,690
• interest added to principal	316,107	544,734
• foreign exchange differences	1,990,724	(283,780)
Decrease:		
• sale of securities	(437,721,596)	(334,905,143)
• transfer to debt securities	(9,343,882)	-
• transfer to long-term investments in other companies	(206,973)	-
Impairment	(604,879)	(231,484)
Balance at 31 December	174,151,282	144,248,876

21.
→ Investments in
associated companies
and joint ventures

a) Analysis by type of investment

in thousands of tolar	31.12.2005	31.12.2004
In tolar		
• banks	6,999,140	6,598,757
• other financial organisations	1,321,482	1,087,221
• enterprises	980,931	887,663
In foreign currency		
• banks	2,696,432	2,576,791
• other financial organisations	-	35,825
• enterprises	72,771	45,726
TOTAL	12,070,756	11,231,983

Companies in which the Group has significant influence are:

Name	Nature of business	Equity as at 31 December 2005	Profit for the period 2005	Ownership Interest in %	Voting power held in %	Investment as at 31 December 2005
Banka Celje d.d., Celje	Banking	30.143.394	2.982.873	30,62	37,52	6.999.140
Adria Bank AG, Wien	Banking	7.322.146	452.677	28,46	28,46	2.201.928
Bankart d.o.o., Ljubljana	Card management	2.445.043	243.151	39,45	39,45	968.320
West-East Bank AD, Sofia	Banking	1.983.009	215.506	24,50	24,50	494.504
Skupna pokojninska družba d.d., Ljubljana	Insurance	1.092.982	85.815	27,49	27,49	420.148
Krajinapromet AD, Banja Luka	Trade	123.720	(28.117)	30	30	72.771
ICJ d.o.o., Domžale	Property	37.629	17.298	50	50	12.611

Equity decreased for own shares is used in the calculation of the participation in equity and the share of held voting power.

Jointly controlled companies are:

Name	Nature of business	Equity as at 31 December 2005	Profit for the period 2005	Ownership Interest in %	Voting power held in %	Investment as at 31 December 2005
NLB Vita d.d., Ljubljana	Insurance	934,954	50,524	50	50	479,051
Prvi Faktor Group d.o.o., Ljubljana	Finance	918,472	147,259	50	50	422,283

b) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	11,231,983	9,110,960
Acquisition of an associate	3,426,853	548,351
Increase of investment due to the change in accounting policy	-	807,956
Foreign exchange differences	34,464	26,096
Profit for the period	1,769,267	1,662,797
Tax on profit	(481,676)	(554,063)
Dividends received	(570,865)	(525,334)
Disposal of an associate	(3,282,948)	-
Other	(56,322)	155,220
Balance at 31 December	12,070,756	11,231,983

In the year 2005 the Bank acquired 7.17% share in Banka Celje, which was sold at the end of the year in order to meet capital adequacy requirements.

22.
→ Investments
in other companies

a) Analysis by type of investment

in thousands of tolar	31.12.2005	31.12.2004
In tolar		
• banks	1,235	1,235
• other financial organisations	836,123	1,173,345
• enterprises	221,311	181,321
In foreign currency		
• banks	474,356	299,497
• other financial organisations	360,988	277,043
• enterprises	192,329	572,615
TOTAL	2,086,342	2,505,056

The total amount of investments in other companies as at 31 December 2005 includes listed securities in the amount of tolar 701,137 thousand tolar (31 December 2004 : 848,319 thousand tolar).

b) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	2,505,056	4,377,153
Consolidation of new subsidiaries	531,305	-
Exchange differences on opening balance of subsidiaries	(5,370)	3,630
Increase in investment	182,951	330,672
Decrease in investment	(1,191,254)	(1,012,107)
Foreign exchange differences	(77)	2,330
Impairment	(1,715)	(211,818)
Transfer from securities held for trading	206,973	-
Transfer to investments in associated companies and joint ventures	(141,527)	-
Other	-	(984,804)
Balance at 31 December	2,086,342	2,505,056

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23.
→ Intangible assets

in thousands of tolar	Software	Goodwill	Deferred cost	Intangible assets in course of transfer or construction/ implementation	Total
Cost					
Balance at 1 January 2005	18,145,488	2,902,059	2,096,193	6,593,036	29,736,776
Consolidation of new subsidiaries	400,699	-	206,691	10,504	617,894
Exchange differences on opening balance of subsidiaries	(8,327)	-	33	4	(8,290)
Additions	4,549,223	18,122,112	165,448	1,668,244	24,505,027
Disposals	(244,267)	-	(69,263)	(153,524)	(467,054)
Software write off	(2,141,943)	-	-	(2,266,170)	(4,408,113)
Balance at 31 December 2005	20,700,873	21,024,171	2,399,102	5,852,094	49,976,240
Depreciation					
Balance at 1 January 2005	5,352,816	1,523,945	1,367,798	-	8,244,559
Consolidation of new subsidiaries	168,248	-	65,617	-	233,865
Exchange differences on opening balance of subsidiaries	(4,818)	-	509	-	(4,309)
Disposals	(49,389)	-	(50,796)	-	(100,185)
Charge for the year	2,707,076	1,976,166	211,421	-	4,894,663
Software write off	(887,596)	-	-	-	(887,596)
Balance at 31 December 2005	7,286,337	3,500,111	1,594,549	-	12,380,997
Net carrying value					
Balance at 1 January 2005	12,792,672	1,378,114	728,395	6,593,036	21,492,217
Balance at 31 December 2005	13,414,536	17,524,060	804,553	5,852,094	37,595,243

Intangible assets include the Group's new information system with the carrying value of 15,052,052 thousand tolar as at 31 December 2005 (information system completed for use 10,635,230 thousand tolar, information system in course of implementation 4,416,822 thousand tolar). Accumulated amortisation of the information system as at 31 December 2005 amounted to 2,437,640 thousand tolar while the amortisation costs for the year 2005 amounted to 1,091,051 thousand tolar. The remaining useful life of the system is between 6 and 10 years.

In the year 2005 the Group wrote off the investment in software in the amount of 3,520,517 thousand tolar as a consequence of changes in regulatory environment that resulted in certain assets not being useful any longer and had to be replaced.

24.
→ Property and equipment

in thousands of tolar	Land & buildings	Computers	Furniture & equipment	Motor vehicles	Assets in course of transfer or construction/ implementation	TOTAL
Cost or valuation						
Balance at 1 January 2005	60,383,746	25,864,603	18,233,179	3,676,661	1,213,152	109,371,341
Consolidation of new subsidiaries	7,472,791	1,073,357	1,895,528	209,310	792,379	11,443,365
Exchange differences on opening balance of subsidiaries	(189,121)	(34,472)	1,746	9,817	(876)	(212,906)
Additions	-	-	-	-	16,801,074	16,801,074
Transfers	1,690,353	2,379,711	2,779,148	1,545,341	(15,310,732)	(6,916,179)
Disposals	(1,165,621)	(2,289,891)	(823,686)	(910,939)	(44,296)	(5,234,433)
Transfer from investment property	423,628	-	-	-	-	423,628
Transfer to investment property	(1,019,611)	-	-	-	-	(1,019,611)
Revaluation surplus	223,259	-	-	-	-	223,259
Balance at 31 December 2005	67,819,424	26,993,308	22,085,915	4,530,190	3,450,701	124,879,538
Depreciation						
Balance at 1 January 2005	16,712,352	18,778,738	12,631,680	1,463,144	-	49,585,914
Consolidation of new subsidiaries	1,216,452	706,169	1,087,656	109,497	-	3,119,774
Exchange differences on opening balance of subsidiaries	(10,324)	(12,886)	(12,112)	2,889	-	(32,433)
Disposals	(290,797)	(2,250,001)	(472,359)	(485,493)	-	(3,498,650)
Transfer to investment property	(280,366)	-	-	-	-	(280,366)
Transfer from investment property	248,103	-	-	-	-	248,103
Charge for the year	1,169,204	3,018,372	1,792,389	568,292	-	6,548,257
Balance at 31 December 2005	18,764,624	20,240,392	15,027,254	1,658,329	-	55,690,599
Net carrying value						
Balance at 1 January 2005	43,671,394	7,085,865	5,601,499	2,213,517	1,213,152	59,785,427
Balance at 31 December 2005	49,054,800	6,752,916	7,058,661	2,871,861	3,450,701	69,188,939

There was no indication that assets may be impaired, therefore the recoverable amount was not estimated.

Assets held under finance lease amounted to 7,165 thousand tolar as at 31 December 2005.

25.
→ Treasury shares

The Group holds treasury shares in the amount of 490,825 thousand tolar being 34,925 treasury shares in the nominal amount of 69,850 thousand tolar. Koroška banka d.d., Slovenj Gradec holds 34,924 NLB shares being 0.45% of the subscribed capital while NLB Propria d.o.o., Ljubljana holds one share.

The Group holds 107,312 treasury shares received as a collateral as at 31 December 2005 (31 December 2004: 88,362) with the nominal value of 214,624 thousand tolar (31 December 2004: 176,724 thousand tolar) being 1.4% of subscribed capital (31 December 2003: 1.2%).

26.
→ Other assets

a) Analysis by type of asset

in thousands of tolar	31.12.2005	31.12.2004
Credit cards receivables	10,207,726	9,465,531
Non authorized overdrafts	5,786,470	5,274,500
Investment property	5,525,697	3,618,407
Accrued interest due	4,002,569	2,934,775
Debtors	2,922,874	2,739,214
Receivables in course of collection	2,782,121	3,459,383
Prepayments	2,382,818	1,814,789
Claims for taxes and other dues	2,351,045	1,079,236
Inventories	2,318,330	2,178,509
Deffered income tax assets	2,079,804	55,281
Prepayments for the acquisition of capital investments	1,346,732	-
Fees and commissions due	818,175	503,185
Derivative financial instruments	818,127	1,242,207
Cheques	137,018	770,143
Other assets	3,349,937	2,667,386
	46,829,443	37,802,546
Provisions	(11,521,806)	(9,592,251)
TOTAL	35,307,637	28,210,295

Receivables in the course of collection are temporary balances, which are according to the functionality of the information support system transferred to appropriate item of other assets within next few days after the occurrence.

b) Movement in investment property

in thousands of tolar	2005	2004
Balance at 1 january	3,618,407	3,424,935
Exchange differences on opening balance of subsidiaries	1,380	(9,184)
Consolidation of new subsidiaries	178,831	-
Disposal of investment property	(5,466)	(140,977)
Increase	1,607,953	646,547
Transfer from property and equipment	739,245	64,461
Transfer to property and equipment	(175,525)	-
Impairment	(239,579)	(26,435)
Depreciation	(199,549)	(178,507)
Other	-	(162,433)
Balance at 31 December	5,525,697	3,618,407

27.
→ Accrued income and deferred expenses

in thousands of tolar	31.12.2005	31.12.2004
Accrued income not yet due	16,515,575	14,330,496
Deferred expenses	504,837	544,496
TOTAL	17,020,412	14,874,992

28.
→ Movements in specific provisions by type of asset

in thousands of tolar	Balance at 1 January 2005	Share in gross assets in %	Consolidation of new subsidiaries	Exchange differences on opening balance	Specific provisions made	Specific provisions released	Write offs	Other	Balance at 31 December 2005	Share in gross assets in %
Placements with, and loans to, other banks	3,458,332	1,96	-	(36,408)	3,579,812	(2,993,209)	-	-	4,008,527	1.78
Loans and advances to customers	69,046,515	5,24	15,817,028	(483,557)	52,340,748	(42,994,736)	(314,231)	-	93,411,767	5.41
Other assets	9,592,251	25,37	1,127,676	(236,519)	2,983,903	(1,963,854)	(31)	18,380	11,521,806	24.60
TOTAL	82,097,098		16,944,704	(756,484)	58,904,463	(47,951,799)	(314,262)	18,380	108,942,100	

29.
→ Deposits and borrowings from banks

a) Analysis of deposits

in thousands of tolar	31.12.2005	31.12.2004
On demand		
• in tolar	8,242,719	3,953,751
• in foreign currency	15,371,163	20,080,146
Short-term deposits		
• in tolar	5,629,922	7,458,672
• in foreign currency	137,211,150	88,038,364
Long-term deposits		
• in tolar	15,000	5,000
• in foreign currency	30,516	1,577,780
Current portion of long-term deposits	32,679	37,000
TOTAL a)	166,533,149	121,150,713

b) Analysis of borrowings

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Short-term	Short-term	Long-term
In tolar				
• other banks	1,703,155	-	340,841	-
In foreign currency				
• other banks	127,206,471	527,890,943	90,028,450	272,073,124
Current portion of long term loans	117,732,175	(117,732,175)	50,616,669	(50,616,669)
TOTAL b)	246,641,801	410,158,768	140,985,960	221,456,455
TOTAL a) in b)	413,129,434	410,204,284	260,553,893	223,039,235
TOTAL		823,333,718		483,593,128

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

Deposits and borrowings received from associated and other related banks amounted to 11,664,081 thousand tolars as at 31 December 2005 (5,365,236 thousand tolars as at 31 December 2004).

Deposits and borrowings between the Group members amounted to 189,082,743 thousand tolars as at 31 December 2005 (150,310,423 thousand tolars as at 31 December 2004).

d) Analysis of movements

in thousands of tolars	2005	2004
Balance at 1 January	483,593,128	396,326,692
Consolidation of new subsidiaries	971,459	-
Exchange differences on opening balance of subsidiary	896,570	2,906,822
Increase:		
• new borrowings and deposits	8,115,798,782	8,033,197,774
• exchange differences	3,652,630	500,306
• interest added to principal	1,242	25,258
Decrease:		
• repayments	(7,781,580,093)	(7,949,363,724)
Balance at 31 December	823,333,718	483,593,128

30.
→ **Deposits and borrowings
from other customers**

a) Analysis of deposits by type of customer

in thousands of tolars	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
Demand deposits				
• Enterprises				
• in tolars	68,259,690	-	57,916,883	-
• in foreign currency	29,297,413	-	28,566,734	-
• Government departments and agencies				
• in tolars	11,292,258	-	14,522,809	-
• in foreign currency	770,383	-	555,413	-
• Citizens				
• in tolars	311,928,803	-	288,181,106	-
• in foreign currency	191,676,379	-	51,972,554	-
• Financial organizations				
• in tolars	2,028,895	-	997,733	-
• in foreign currency	1,867,727	-	748,502	-
• Non-residents				
• in tolars	2,361,096	-	2,338,486	-
• in foreign currency	121,734,456	-	48,763,316	-
• Non profit household service providers				
• in tolars	10,005,628	-	9,460,412	-
• in foreign currency	2,306,025	-	1,210,425	-
Time deposits				
• Enterprises				
• in tolars	109,315,862	6,787,475	85,681,132	9,046,121
• in foreign currency	22,027,599	182,370	29,563,151	414,108
• Government departments and agencies				
• in tolars	32,247,402	2,921,957	23,630,734	3,836,605
• in foreign currency	286,878	24,976	157,324	-
• Citizens				
• in tolars	257,018,867	55,532,853	251,871,968	59,887,619
• in foreign currency	152,428,406	37,143,723	283,777,553	31,406,394
• Financial organizations				
• in tolars	7,720,314	18,000,820	17,074,308	20,702,800
• in foreign currency	1,482,208	38,075	3,214,021	50,958
• Non-residents				
• in tolars	854,997	96,939	983,481	79,441
• in foreign currency	69,255,709	36,806,390	44,870,189	10,715,053
• Non profit household service providers				
• in tolars	7,538,840	369,377	5,501,801	367,052
• in foreign currency	1,829,126	22,414	1,668,076	1,008
Current portion of long-term deposits	55,483,149	(55,483,149)	58,895,002	(58,895,002)
	1,471,018,110	102,444,220	1,312,123,113	77,612,157
TOTAL a)	1,573,462,330		1,389,735,270	

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b) Analysis of borrowings by type of customer

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
Enterprises				
• in tolar	782,990	-	216,397	-
Government departments and agencies				
• in foreign currency	-	1,699,782	-	2,576,975
Financial organizations				
• in tolar	1,455,956	1,308,226	4,235,569	1,562,730
• in foreign currency	2,400,993	20,100,969	-	20,682,902
Non residents				
• in foreign currency	42,691,243	16,333,489	40,314,257	13,749,600
Current portion of long-term deposits	3,394,945	(3,394,945)	5,462,880	(5,462,880)
TOTAL b)	50,726,127	36,047,521	50,229,103	33,109,327
TOTAL a) in b)	1,521,744,237	138,491,741	1,362,352,216	110,721,484
TOTAL	1,660,235,978		1,473,073,700	

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

Deposits and borrowings received from associated, joint ventures and other related companies amounted to 37,687,808 thousand tolar as at 31 December 2005 (41,293,714 thousand tolar as at 31 December 2004).

Deposits and borrowings between the Group members amounted to 5,365,735 thousand tolar as at 31 December 2005 (10,749,052 thousand tolar as at 31 December 2004).

d) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	1,473,073,700	1,362,761,581
Consolidation of new subsidiaries	95,216,461	-
Exchange differences on opening balance of subsidiaries	(689,734)	(1,624,246)
Increase:		
• new borrowings and deposits	25,713,519,745	22,483,988,381
• exchange differences	8,168,539	2,533,989
• interest added to principal	16,939,256	20,974,066
Decrease:		
• repayments	(25,645,991,989)	(22,395,560,071)
Balance at 31 December	1,660,235,978	1,473,073,700

31.

→ Debt securities

a) Analysis of debt securities by maturity

in thousands of tolar	31.12.2005	31.12.2004
Short-term liabilities		
• in tolar	2,053	7,336,179
• in foreign currency	148,092	166,740
Long-term liabilities		
• in tolar	77,865,651	64,722,104
Current portion of long-term liabilities	15,499,716	23,441,356
TOTAL	93,515,512	95,666,379

For a detailed maturity analysis of debt securities refer to note 45 - 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 14,932,372 thousand tolar as at 31 December 2005 (24,224,232 thousand tolar as at 31 December 2004).

32.

→ Other liabilities

a.) Analysis by type of liability

in thousands of tolar	31.12.2005	31.12.2004
Suppliers	6,085,817	5,727,103
Liabilities to traders for credit cards	3,998,952	4,337,998
Liabilities for purchased debts	2,636,482	2,722,282
Items in course of payment	2,474,620	1,170,154
Accrued salaries	2,427,420	1,974,831
Derivative financial instruments	2,403,231	3,505,548
Taxes payable	2,212,264	3,429,195
Accrued interest due	1,762,793	1,382,185
Payments received in advance	1,043,844	509,782
Liabilities for received cash in foreign currency	612,953	222,738
Fees and commissions due	263,615	79,803
Net liabilities from funds managed on behalf of third parties	55,737	1,099,168
Other liabilities	1,650,993	2,338,525
TOTAL	27,628,721	28,499,312

33.
→ Accruals and
deferred income

in thousands of tolar	31.12.2005	31.12.2004
Accrued interest not yet due	12,137,911	9,936,031
Items in course of collection	2,880,718	649,982
Accrued expenses	1,720,536	1,395,973
Deferred income	737,377	792,818
TOTAL	17,476,542	12,774,804

Items in course of collection are temporary balances, which are according to the functionality of the information support system transferred to appropriate item of other liabilities within next few days after the occurrence.

34.
→ Provisions for
liabilities and charges

a) Analysis by type of provision

in thousands of tolar	31.12.2005	31.12.2004
Provisions for A graded balance sheet and off-balance sheet assets	21,239,162	15,877,817
Provisions for other off-balance sheet assets	13,037,555	14,093,283
Country risk provision	19,618,403	14,917,049
Provisions for non-credit risk	3,278,781	3,656,386
Provisions for pensions and restructuring costs	3,236,457	3,211,008
Excess	317,166	598,355
Other provisions	1,512,407	80,008
TOTAL	62,239,931	52,433,906

b) Analysis of movements

in thousands of tolar	Balance at 1 January 2005	Consolidation of new subsidiaries	Exchange difference on opening balance of subsidiaries	Provisions made	Provisions released	Provisions utilized	Balance at 31 December 2005
Provisions for A graded balance sheet and off balance sheet assets	15,877,817	1,587,837	(65,416)	14,629,721	(10,790,797)	-	21,239,162
Provisions for other off-balance sheet assets	14,093,283	278,844	(23,433)	20,567,589	(21,878,728)	-	13,037,555
Excess	598,355	-	-	31,862	(313,051)	-	317,166
Country risk provisions	14,917,049	-	(24,119)	16,380,718	(11,655,245)	-	19,618,403
Provisions for pensions and restructuring costs	3,211,008	-	(1,821)	901,733	(288,744)	(585,719)	3,236,457
Provisions for non-credit risk	3,656,386	-	-	-	(376,211)	(1,394)	3,278,781
Other provisions	80,008	-	(2,174)	1,496,622	(45,088)	(16,961)	1,512,407
TOTAL	52,433,906	1,866,681	(116,963)	54,008,245	(45,347,864)	(604,074)	62,239,931

35.
→ Provisions for
general banking risks

in thousands of tolar	2005	2004
Balance at 1 January	9,602,720	7,619,204
Exchange difference	(1,550)	35,174
Provisions made	100,000	2,450,000
Provisions released	(503,235)	(501,658)
Balance at 31 December	9,197,935	9,602,720

36.
→ Subordinated
liabilities

in thousands of tolar	Currency	Maturity	Interest rate	31.12.2005	31.12.2004	
Subordinated loans and deposits	SIT	1.4.2005	GPI +6 %	-	400,000	
	EUR	24.7.2012	EURIBOR+1.2 % till 24.7.2007, than EURIBOR + 1.5 %	21,561,804	21,576,870	
				21,561,804	21,976,870	
Subordinated notes	SIT	9.6.2013	7 %	10,528,938	10,508,543	
		in SIT with foreign currency clause	24.11.2008	EUR + 5 %	3,344,796	3,344,071
		in SIT with foreign currency clause	10.2.2011	4.5 %	1,197,939	1,198,776
	EUR	2.6.2014	3 M EURIBOR + 1.25%	11,978,780	11,987,150	
	EUR	after 17.12.2014	3 M EURIBOR + 1.6%	23,957,560	23,974,300	
	EUR	15.7.2015	6 M EURIBOR + 1.7%	31,144,828	-	
				82,152,841	51,012,840	
TOTAL				103,714,645	72,989,710	

In the year 2005 NLB issued an innovative instrument in the form of bonds in the total amount of 130 million Euro. Bonds are quoted at Luxemburg stock exchange and were issued for capital adequacy purposes. Characteristics of the innovative instrument are compliant with the Regulation on capital adequacy of banks and savings banks. Main characteristics are:

- Instrument is perpetual.
- The Bank has the right to redeem bonds after 10 years from the date of their issuance with prior approval of the Bank of Slovenia.
- Interest is paid semi-annual.
- Payments from this instrument are non cumulative.
- They are able to absorb losses on a going-concern basis.
- They are subordinated to depositors, general creditors and subordinated debt instruments, which means that in the case of the bank's bankruptcy these instruments rank just above non - cumulative preference shares.
- They are permanent, i.e. they cannot be withdrawn at the bearer's request and do not have an explicit or indicated maturity.
- They are neither secured nor covered by a guarantee of the issuing bank or related entity or any other form of arrangement that legally or economically enhances the seniority of the claim.
- The withdrawal or redemption of the instruments by the issuing bank or the acceptance of the instrument as collateral for a claim is first possible only after a minimum of five years after issue and with the prior approval of the Bank of Slovenia. A condition for approval is that the bank will replace the instruments with another form of capital of the same or better quality, unless the Bank of Slovenia determines that even without the innovative instruments the capital is more than adequate to the risk assumed by the bank and its commercial strategy. From the day it is withdrawn, redeemed or accepted as collateral an innovative instrument no longer meets the conditions for inclusion in the calculation of the own funds.
- Proceeds must be immediately and unconditionally available to the issuing bank.
- In the event the bank has no distributable profit, the bank must have discretion of not paying out returns on innovative instruments and bank must have full access to waived payments.
- Distributions can only be paid out of distributable items. Where the distributions are preset, they may not be reset based on the credit rating of the issuing bank.

37.
→ Minority
interest

in thousands of tolar	2005	2004
Balance at 1 January	20,759,773	22,754,402
Exchange differences on opening balance of subsidiaries	(23,502)	(230,852)
Consolidation of new subsidiaries	1,057,716	-
Share of profits	2,146,430	1,211,321
Purchases of own shares	(1,020,251)	(1,903,946)
Dividends paid	(858,678)	(975,442)
Other	(1,943)	(95,710)
Balance at 31 December	22,059,545	20,759,773

38.
→ Subscribed capital

a) Analysis of subscribed capital by type of shareholder

in thousands of tolar	31.12.2005	31.12.2004
Enterprises	1,293,652	1,255,618
Government departments and agencies	6,251,168	6,251,896
Banks	6,107,912	6,074,742
Other financial organizations	1,613,776	1,673,542
Citizens	97,522	108,232
TOTAL	15,364,030	15,364,030

At 31 December 2005, 7,682,015 ordinary shares represented the Group's subscribed capital, each with the nominal value of 2,000 tolar. The shares are issued in a non-materialized form and are registered in the Centralna klirinško depotna družba d.d. All shares are ordinary shares of the same class.

At the end of the year 2005, there were 906 shareholders of whom 260 were legal entities, 640 private individuals and 6 non-residents.

The weighted average number of ordinary shares outstanding in the year 2005 is 7,682,015 (31 December 2004: 7,682,015). Basic earnings per share as at 31 December 2005 amounted to tolar 1,550.81 (31 December 2004: 1,128.14).

If the Group maintained capital at the rate equal to the general price index in the year 2005, profit before tax would amount to 17,068,638 thousand tolar (31 December 2004: 15,611,176 thousand tolar). In the year 2005 the growth rate for Euro was negative and consequently there would not be any adjustment of capital.

The bank issued in the year 2005 an innovative instrument that can be partially included in core capital and partially in additional capital for the purpose of capital adequacy.

b) Components of equity

in thousands of tolar	31.12.2005	31.12.2004
Subscribed capital	15,364,030	15,364,030
Equity reserves	13,859,952	13,859,952
Profit reserves	68,154,298	65,994,030
Treasury shares reserve	490,825	490,825
Retained earnings	4,898,311	2,284,543
General capital revaluation adjustment	11,791,771	11,791,771
Specific capital revaluation adjustment	286,423	189,834
Net profit for the period	11,958,140	7,198,852
Total shareholder's equity	126,803,750	117,173,837

39.
→ Off-balance sheet

a) Analysis by type of contingent liabilities and commitments

in thousands of tolar	31.12.2005		31.12.2004	
	In tolar	In foreign currency	In tolar	In foreign currency
Short-term guarantees				
• finance	19,687,037	25,958,096	34,170,467	22,211,574
• service	19,753,808	20,151,679	14,011,879	12,075,101
Long-term guarantees				
• finance	20,717,490	30,943,095	15,788,389	34,328,773
• service	42,729,577	23,356,909	40,349,475	13,266,013
Commitments to extend credit	174,977,254	74,602,169	171,840,001	63,498,303
Letters of credit	39,236	8,488,587	-	8,209,913
Guaranteed and accepted bills	41,503	7,711,207	-	6,656,073
Other contingent liabilities	2,451,000	30,929,116	1,463,066	3,337,664
Recoverable amount of derivative financial instruments	523,944	5,215,227	997,229	2,151,628
	280,920,849	227,356,085	278,620,506	165,735,042
Provisions	(5,258,343)	(7,779,212)	(6,956,745)	(7,136,538)
TOTAL	275,662,506	219,576,873	271,663,761	158,598,504
		495,239,379		430,262,265

According to the Bank of Slovenia's methodology the Group's total off-balance sheet items amounted to 1,105,598,858 thousand tolar (31 December 2004: 820,309,543 thousand tolar). In accordance with the Decree on the classification of the Balance Sheet and Off-Balance Sheet items of Banks and Saving Banks, the Group established provisions only for contingent liabilities and commitments amounting to 508,276,934 thousand tolar (31 December 2004: 444,355,548 thousand tolar). The difference to the total off-balance sheet items of the Bank consists of transactions or items that are treated as riskless contingent liabilities such as currency spot transactions and difference between contractual and replaceable value of derivatives.

At 31 December 2005 off-balance sheet items included liabilities related to contracts with associates and other related companies in the amount of 2,642,776 thousand tolar (31 December 2004: 5,254,200 thousand tolar).

b) Analysis of derivative financial instruments by type

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
Swaps with the Bank of Slovenia	150,209,600	-	170,219,916	-
Swaps	105,920,825	135,389,552	41,427,177	49,408,644
Options	45,195,141	25,268,425	9,627,025	7,653,969
Forward contracts	29,630,320	873,767	19,858,624	3,245,230
Futures	1,840,268	-	477,338	-
Forward contracts to buy or sell securities	2,100,172	3,468,344	3,566,658	2,563,497
	334,896,326	165,000,088	245,176,738	62,871,340
TOTAL	499,896,414		308,048,078	

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.

Financial statements of the Group for the year 2005 include provisions for financial derivative instruments in the amount of 52,277 thousand tolar (37,275 thousand tolar as at 31 December 2004).

c) Assets pledged

in thousands of tolar	Assets pledged as collateral		Liabilities	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Bonds	88,871,020	63,044,106	88,812,187	58,122,478
Finance lease receivables	822,567	1,617,179	822,567	1,617,179
Factoring receivables	-	2,090,673	-	1,576,320
TOTAL	89,693,587	66,751,958	89,634,754	61,315,977

40.
→ Funds managed on
behalf of third parties

The Group manages assets totaling 479,476,137 thousand tolar (290,764,816 thousand as at 31 December 2004) 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.

41.
→ Subsidiaries

These subsidiaries are:

in thousands of tolar	Country of incorporation	The Bank's share of subscribed capital as at 31 December 2005	Profit for the period	Ownership Interest in %	Voting Power Held in %
Group Banka Domžale, Domžale	Slovenia	9,256,104	1,057,929	65.98	65.98
Koroška banka d.d., Slovenj Gradec	Slovenia	12,394,456	1,184,541	62.54	62.54
Banka Zasavje d.d., Trbovlje	Slovenia	6,627,284	526,782	70.80	70.80
Group LHB Internationale Handelsbank, Frankfurt / Main	Germany	18,942,088	1,408,397	56.01	56.01
Group Tutunska Banka AD, Skopje	Republic of Macedonia	10,728,084	1,527,900	74.19	74.19
CBS Bank d.d., Sarajevo	Republic of Bosnia and Herzegovina	2,507,539	141,064	100	100
Montenegrobanka AD, Podgorica	Republic of Serbia and Montenegro	3,008,579	9,669	91.52	91.52
Razvojna banka A.D., Banja Luka	Republic of Bosnia and Herzegovina	3,273,710	76,733	92.42	92.42
Tuzlanska banka d.d., Tuzla	Republic of Bosnia and Herzegovina	4,001,094	566,765	83.54	83.64
Group Continental Banka a.d., Novi Sad	Republic of Serbia and Montenegro	8,912,013	703,178	99.50	99.50
Euromarket banka A.D., Podgorica	Republic of Serbia and Montenegro	2,065,580	33,833	80.29	80.29
Group LB Leasing d.o.o., Ljubljana	Slovenia	3,036,160	502,810	100	100
NLB Leasing d.o.o., Maribor	Slovenia	418,842	115,857	100	100
NLB Leasing d.o.o., Koper	Slovenia	224,850	(150,930)	100	100
NLB Maksima d.o.o., Ljubljana	Slovenia	855,969	216,408	100	100
NLB Leasing Velenje d.o.o., Velenje	Slovenia	(51,990)	35,546	100	100
NLB Skladi d.o.o., Ljubljana	Slovenia	762,398	216,871	100	100
Group LB InterFinanz, Zürich	Switzerland	4,031,941	1,640,553	100	100
Group NLB Factoring a.s., Ostrava	Czech Republic	1,230,802	279,357	100	100
Group NLB Propria d.o.o., Ljubljana	Slovenia	2,621,952	(217,091)	100	100
Prospera Plus d.o.o., Ljubljana	Slovenia	125,847	4,223	100	100
CBS Invest d.o.o., Sarajevo	Republic of Bosnia and Herzegovina	13,643	641	100	100
Nov penziski fond a.d., Skopje	Republic of Macedonia	227,439	(131,425)	100	100
Slovenska Investicijska Banka	Slovenia	(2,281,016)	18,845	80.78	80.78

Equity decreased for own shares is used in the calculation of the participation in equity and the share of voting power held.

42.
→ Related party
transactions

in thousands of tolar	Balance at 31.12.2005	Balance at 31.12.2004	Interest rate	Repayments in 2005
Loans and advances to:				
• Management Board members	48,406	49,872	GPI + 1.3%	5,368
• Supervisory Board members	17,435	7,344		862
• other employees by individual contracts	765,544	520,977	GPI + 1.3%	146,210
• NLB Bank shareholders	113,780,110	106,295,476		
Deposits to:				
• NLB Bank shareholders	3,677,136	1,007,626		
Securities:				
• NLB Bank shareholders	195,307,620	195,791,296		
Deposits from:				
• Management Board members	49,048	33,097		
• Supervisory Board members	-	10,168		
• other employees by individual contracts	1,021,974	837,020		
• NLB Bank shareholders	106,045,796	80,441,104		
Borrowings from:				
• NLB Bank shareholders	8,258,270	3,709,491		
Debt securities:				
• NLB Bank shareholders	34,314,680	37,147,586		
Subordinated liabilities:				
• NLB Bank shareholders	27,142,509	27,203,391		
Contingent liabilities and commitments				
• other employees by individual contracts	-	4,977		
	2005	2004		
Income:				
• Management Board members	414,872	401,172		
• Supervisory Board members	6,363	3,400		
• other employees by individual contracts	3,815,002	3,243,123		

Income includes gross salaries, shares in profit, attendance fees, profit sharing bonus, vacation bonus, management insurance, jubilee bonuses and additional pension insurance.

Income of the Management Board members includes only income of the Management Board of the parent bank. Income of other Group members' Management Board is included in income of other employees by individual contract. Income of Supervisory Board members includes only income of the Supervisory Board of the parent bank.

43.
→ Fair values of
financial instruments

in thousands of tolar	Note	2005		2004	
		Carrying amount	Fair value	Carrying amount	Fair value
Placements with, and loans to other banks	17	220,957,108	222,293,659	172,952,577	175,815,952
Loans and advances to customers	18	1,632,011,084	1,695,605,919	1,247,967,984	1,284,088,944
Debt securities available for sale	19a	605,139,083	609,487,705	550,079,626	556,372,497
Debt securities held to maturity	19b	9,149,601	9,086,194	37,354,939	38,030,607
Investments in other companies	21, 22	14,157,098	14,689,897	13,737,039	14,913,748
Securities held for trading	20	174,151,282	177,400,099	144,248,876	150,391,552
Derivative financial instruments	26	818,127	2,212,575	1,242,207	1,874,287
Deposits from banks	29a	166,533,149	164,567,046	121,150,713	118,979,420
Borrowings from banks	29b	656,800,569	657,083,379	362,442,415	359,275,184
Deposits from customers	30a	1,573,462,330	1,618,490,570	1,389,735,270	1,359,263,017
Borrowings from customers	30b	86,773,648	86,238,913	83,338,430	83,076,134
Debt securities	31	93,515,512	96,703,154	95,666,379	98,433,652
Subordinated liabilities	36	103,714,645	104,973,882	72,989,710	72,279,476
Derivative financial instruments	32	2,403,231	2,403,231	3,505,548	3,505,548

Placements with, and loans to 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 other customers

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.

Debt securities held to maturity

The fair value of securities held to maturity is based on their quoted market price or calculated by using discounted cash flows techniques.

Deposits

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

The fair value of issued securities is based on their quoted market price or calculated by using discounted cash flows techniques.

44.
→ Segmental analysis

a) Business segments

in thousands of tolar	2005						Total
	Banking	Trade finance	Leasing	Asset management	Other	Eliminations	
Income	223,378,737	9,425,687	11,192,724	1,499,726	2,988,568	(11,337,716)	237,147,726
• external revenues	214,233,146	8,967,758	10,500,249	1,490,048	1,956,525	-	237,147,726
• revenues from other segments	9,145,591	457,929	692,475	9,678	1,032,043	(11,337,716)	-
Profit before tax	17,316,468	1,206,020	975,884	526,970	(278,661)	-	19,746,681
Total assets	2,755,141,660	95,126,264	82,754,556	1,340,199	11,843,598	-	2,946,206,277
Liabilities	2,713,960,951	68,754,049	32,177,604	191,136	4,318,787	-	2,819,402,527
2004							
Income	214,705,030	8,617,254	9,882,668	1,049,541	5,314,562	(9,386,205)	230,182,850
• external revenues	208,813,592	7,760,272	9,655,058	1,038,973	2,914,955	-	230,182,850
• revenues from other segments	5,891,438	856,982	227,610	10,568	2,399,607	(9,386,205)	-
Profit before tax	16,602,859	1,847,936	776,503	105,087	(117,091)	-	19,215,294
Total assets	2,230,026,329	73,431,784	49,309,303	1,755,572	12,044,281	-	2,366,567,269
Liabilities	2,170,998,927	49,351,887	23,481,587	536,435	5,024,596	-	2,249,393,432

The Group's operations are divided in segments, which in accordance with Group's strategy represent its most important business segments. Segment Other includes above all the Group's operation in the field of real estate management, catering, insurance and other non-financial operation. The income is: interest income, received commissions, income from capital and other investments, income from financial transactions, other operating income and extraordinary income.

b) Geographical segments

in thousands of tolar	2005				Total
	Slovenia	South East Europe	West Europe	Eliminations	
Income	191,534,884	37,952,131	18,998,427	(11,337,716)	237,147,726
• external revenues	181,926,399	36,660,764	18,560,563	-	237,147,726
• revenues from other segments	9,608,485	1,291,367	437,864	(11,337,716)	-
Profit before tax	15,903,008	2,447,794	1,395,879	-	19,746,681
Total assets	2,338,114,495	285,810,402	322,281,380	-	2,946,206,277
Liabilities	2,287,027,081	230,319,393	302,056,053	-	2,819,402,527
2004					
Income	198,964,197	23,499,982	17,104,876	(9,386,205)	230,182,850
• external revenues	191,839,284	22,333,533	16,010,033	-	230,182,850
• revenues from other segments	7,124,913	1,166,449	1,094,843	(9,386,205)	-
Profit before tax	16,966,943	1,414,146	834,205	-	19,215,294
Total assets	1,952,322,366	127,608,521	286,636,382	-	2,366,567,269
Liabilities	1,898,285,988	92,165,437	258,942,007	-	2,249,393,432

Geographical analysis includes the division between geographical segments according to the country in which individual Group company is located.

45.
→ Balance sheet
maturity analysis

The balance sheet maturity analysis as at 31 December 2005 is as follows:

in thousands of tolar	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	131,037,965	-	-	-	-	131,037,965
Placements with, and loans to, other banks	68,222,369	17,305,715	22,969,267	110,613,137	1,846,620	220,957,108
Loans and advances to customers	85,546,143	148,161,104	481,679,369	599,978,588	316,645,880	1,632,011,084
Debt securities not held for trading	137,151,520	198,733,117	22,397,405	162,443,839	93,562,803	614,288,684
Securities held for trading	170,657,862	1,872,983	1,620,437	-	-	174,151,282
Investments in associated companies and joint ventures	-	-	-	2,095,553	9,975,203	12,070,756
Investments in other companies	-	-	-	985,022	1,101,320	2,086,342
Intangible assets	-	-	128,201	5,557,709	31,909,333	37,595,243
Property and equipment	-	-	-	17,902,956	51,285,983	69,188,939
Treasury shares	-	-	-	121,147	369,678	490,825
Other assets	22,420,739	1,586,428	4,980,982	3,903,692	2,415,796	35,307,637
Accrued income and deferred expenses	3,385,070	2,979,859	10,655,483	-	-	17,020,412
TOTAL ASSETS	618,421,668	370,639,206	544,431,144	903,601,643	509,112,616	2,946,206,277
Deposits and borrowings from banks	129,494,141	115,141,131	168,494,162	375,279,489	34,924,795	823,333,718
Deposits and borrowings from other customers	901,722,141	249,367,413	370,654,683	125,969,324	12,522,417	1,660,235,978
Debt securities	161,456	7,174	15,481,231	36,355,639	41,510,012	93,515,512
Other liabilities	20,640,820	2,839,233	4,148,668	-	-	27,628,721
Accruals and deferred income	5,514,130	2,147,012	9,323,293	492,107	-	17,476,542
Provisions for liabilities and charges	3,755,961	2,448,187	10,732,016	35,362,597	9,941,170	62,239,931
Provisions for general banking risks	-	-	-	375,000	8,822,935	9,197,935
Subordinated liabilities	-	-	-	3,344,796	100,369,849	103,714,645
Minority interest	-	-	-	-	22,059,545	22,059,545
Subscribed capital	-	-	-	-	15,364,030	15,364,030
Equity reserves	-	-	-	-	13,859,952	13,859,952
Profit reserves	-	-	-	-	68,645,123	68,645,123
Capital revaluation adjustment	-	-	-	-	12,078,194	12,078,194
• general capital revaluation adjustment	-	-	-	-	11,791,771	11,791,771
• specific capital revaluation adjustment	-	-	-	-	286,423	286,423
Translation adjustment	-	-	-	-	(7,583)	(7,583)
Retained earnings	-	-	-	-	4,898,311	4,898,311
Net profit for the period	-	-	-	-	11,965,723	11,965,723
TOTAL LIABILITIES	1,061,288,649	371,950,150	578,834,053	577,178,952	356,954,473	2,946,206,277
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	(442,866,981)	(1,310,944)	(34,402,909)	326,422,691	152,158,143	-
31.12.2004						
TOTAL ASSETS	483,809,856	307,247,135	450,737,736	753,739,602	371,032,940	2,366,567,269
TOTAL LIABILITIES	789,707,831	433,273,414	483,952,559	375,805,600	283,827,865	2,366,567,269
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	(305,897,975)	(126,026,279)	(33,214,823)	377,934,002	87,205,075	-

46.
→ Balance sheet
analysis by currency

The balance sheet analysis by currency as at 31 December 2005 is as follows:

in thousands of tolar	Tolars	Tolars with foreign currency clause	EUR	USD	Other	Total
Cash and balances with Central Bank	64,585,157	-	52,183,584	1,066,285	13,202,939	131,037,965
Placements with, and loans to, other banks	97,830,879	-	84,588,680	25,320,871	13,216,678	220,957,108
Loans and advances to customers	551,555,007	64,860,514	898,233,043	38,439,847	78,922,673	1,632,011,084
Debt securities not held for trading	301,981,464	12,100,887	270,242,457	14,963,847	15,000,029	614,288,684
Securities held for trading	115,381,973	5,272,391	30,886,213	19,048,153	3,562,552	174,151,282
Investments in associated companies and joint ventures	9,301,553	-	2,201,921	-	567,282	12,070,756
Investments in other companies	1,058,669	-	491,748	-	535,925	2,086,342
Intangible assets	25,006,372	-	12,336,975	-	251,896	37,595,243
Property and equipment	45,309,988	-	15,056,997	-	8,821,954	69,188,939
Treasury shares	490,825	-	-	-	-	490,825
Other assets	22,589,330	673,551	6,960,335	1,173,478	3,910,943	35,307,637
Accrued income and deferred expenses	11,156,080	305,433	3,910,079	752,426	896,394	17,020,412
TOTAL ASSETS	1,246,247,297	83,212,776	1,377,092,032	100,764,907	138,889,265	2,946,206,277
Deposits and borrowings from banks	15,564,671	26,125	734,101,941	37,000,497	36,640,484	823,333,718
Deposits and borrowings from other customers	903,929,970	3,899,275	637,353,300	54,218,197	60,835,236	1,660,235,978
Debt securities	83,889,793	9,477,627	37,167	110,925	-	93,515,512
Other liabilities	16,277,381	96	5,730,384	1,360,208	4,260,652	27,628,721
Accruals and deferred income	6,944,721	158,781	8,227,033	904,584	1,241,423	17,476,542
Provisions for liabilities and charges	20,359,419	242,394	30,474,520	1,865,652	9,297,946	62,239,931
Provisions for general banking risks	7,302,253	-	1,895,682	-	-	9,197,935
Subordinated liabilities	10,528,938	4,542,735	88,642,972	-	-	103,714,645
Minority interest	9,368,888	-	8,014,092	-	4,676,565	22,059,545
Subscribed capital	15,364,030	-	-	-	-	15,364,030
Equity reserves	13,859,952	-	-	-	-	13,859,952
Profit reserves	67,487,605	-	1,001,563	-	155,955	68,645,123
Capital revaluation adjustment	11,982,216	-	95,768	-	210	12,078,194
• general capital revaluation adjustment	11,791,561	-	-	-	210	11,791,771
• specific capital revaluation adjustment	190,655	-	95,768	-	-	286,423
Translation adjustment	-	-	-	-	(7,583)	(7,583)
Retained earnings	5,249,383	-	204,462	-	(555,534)	4,898,311
Net profit for the period	8,955,395	-	635,446	-	2,374,882	11,965,723
TOTAL LIABILITIES	1,197,064,615	18,347,033	1,516,414,330	95,460,063	118,920,236	2,946,206,277
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	49,182,682	64,865,743	(139,322,298)	5,304,844	19,969,029	-
Derivative financial instruments	(121,438,854)	-	141,847,112	(8,050,372)	(11,656,025)	701,861
31.12.2004						
TOTAL ASSETS	1,186,606,232	64,783,598	946,251,699	76,636,997	92,288,743	2,366,567,269
TOTAL LIABILITIES	1,137,471,469	24,702,751	1,045,722,075	76,572,985	82,097,989	2,366,567,269
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	49,134,763	40,080,847	(99,470,376)	64,012	10,190,754	-
Derivative financial instruments	(94,925,363)	-	106,323,046	(5,494,443)	(6,753,964)	(850,724)

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47.
→ Balance sheet analysis
by interest rate

The balance sheet analysis by interest rate as at 31 December 2005 is as follows:

in thousands of tolar	Total	Non interest-bearing	Interest-bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	Over 1 Year
Cash and balances with Central Bank	131,037,965	73,215,956	57,822,009	57,822,009	-	-	-
Placements with, and loans to, other banks	220,957,108	1,241,072	219,716,036	155,623,640	29,801,017	28,872,701	5,418,678
Loans and advances to customers	1,632,011,084	1,964,387	1,630,046,697	510,540,520	374,623,284	391,283,244	353,599,649
Debt securities not held for trading	614,288,684	-	614,288,684	221,412,161	211,276,593	66,330,284	115,269,646
Securities held for trading	174,151,282	23,028,214	151,123,068	148,592,544	1,872,984	657,540	-
Investments in associated companies and joint ventures	12,070,756	12,070,756	-	-	-	-	-
Investments in other companies	2,086,342	2,086,342	-	-	-	-	-
Intangible assets	37,595,243	37,595,243	-	-	-	-	-
Property and equipment	69,188,939	69,188,939	-	-	-	-	-
Treasury shares	490,825	490,825	-	-	-	-	-
Other assets	35,307,637	34,721,387	586,250	444,256	114,699	27,295	-
Accrued income and deferred expenses	17,020,412	17,020,412	-	-	-	-	-
TOTAL ASSETS	2,946,206,277	272,623,533	2,673,582,744	1,094,435,130	617,688,577	487,171,064	474,287,973
Deposits and borrowings from banks	823,333,718	591,530	822,742,188	157,431,304	431,471,649	227,415,260	6,423,975
Deposits and borrowings from other customers	1,660,235,978	9,097,253	1,651,138,725	1,193,446,584	224,747,224	191,939,231	41,005,686
Debt securities	93,515,512	2,628	93,512,884	23,506,660	7,971	10,883,326	59,114,927
Other liabilities	27,628,721	27,628,721	-	-	-	-	-
Accruals and deferred income	17,476,542	17,476,542	-	-	-	-	-
Provisions for liabilities and charges	62,239,931	62,239,931	-	-	-	-	-
Provisions for general banking risks	9,197,935	9,197,935	-	-	-	-	-
Subordinated liabilities	103,714,645	-	103,714,645	-	66,999,844	21,535,664	15,179,137
Minority interest	22,059,545	22,059,545	-	-	-	-	-
Subscribed capital	15,364,030	15,364,030	-	-	-	-	-
Equity reserves	13,859,952	13,859,952	-	-	-	-	-
Profit reserves	68,645,123	68,645,123	-	-	-	-	-
Capital revaluation adjustment	12,078,194	12,078,194	-	-	-	-	-
• general capital revaluation adjustment	11,791,771	11,791,771	-	-	-	-	-
• specific capital revaluation adjustment	286,423	286,423	-	-	-	-	-
Translation adjustment	(7,583)	(7,583)	-	-	-	-	-
Retained earnings	4,898,311	4,898,311	-	-	-	-	-
Net profit for the period	11,965,723	11,965,723	-	-	-	-	-
TOTAL LIABILITIES	2,946,206,277	275,097,835	2,671,108,442	1,374,384,548	723,226,688	451,773,481	121,723,725
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	-	(2,474,302)	2,474,302	(279,949,418)	(105,538,111)	35,397,583	352,564,248
31.12.2004							
TOTAL ASSETS	2,366,567,269	195,570,203	2,170,997,066	989,342,968	542,894,987	327,726,970	311,032,141
TOTAL LIABILITIES	2,366,567,269	246,903,006	2,119,664,263	1,226,665,762	401,901,576	396,831,380	94,265,545
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	-	(51,332,803)	51,332,803	(237,322,794)	140,993,411	(69,104,410)	216,766,596

48.
→ Effective interest rates

	2005		2004	
	In tolar %	In foreign currency %	In tolar %	In foreign currency %
ASSETS				
Cash and balances with Central Bank	0.63	0.00	0.90	0.00
Placements with, and loans to, other banks *	4.11	3.88	4.37	3.66
Loans and advances to customers *	9.79	3.86	11.05	3.32
Debt securities not held for trading	3.89	1.99	7.72	1.87
Securities held for trading	4.06	3.55	5.85	3.30
Other assets	2.65	0.00	0.58	0.00
TOTAL ASSETS	6.76	3.07	8.43	2.63
LIABILITIES				
Deposits from banks	5.61	2.54	7.22	1.74
Borrowings from banks	0.97	1.84	3.12	1.94
Deposits from other customers	2.62	1.06	3.58	0.71
Borrowings from other customers	2.31	0.74	4.71	2.11
Debt securities	8.28	0.57	8.78	0.23
Other liabilities	1.00	0.00	0.45	0.00
Subordinated liabilities	6.00	3.82	5.43	3.56
TOTAL LIABILITIES	2.94	1.52	3.66	1.22

* Interest rates based on interest income, interest expenses and 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.

2a

Financial
report

Audited Financial
Statements for NLB

under Slovenian Accounting Standards

Key figures of NLB in accordance to Bank of Slovenia methodology

in billion tolar			
	31.12.2003	31.12.2004	31.12.2005
1. BALANCE SHEET			
2. Total assets	1 717,3	1 864,8	2 231,3
3. Non-bank customer deposits & borrowings	1 120,2	1 188,2	1 221,8
4. a) corporate & state	348,7	372,5	377,3
5. b) retail	771,5	815,7	844,4
6. Non-bank customer loans	779,4	900,4	1 140,2
7. a) corporate & state	608,5	706,3	898,7
8. b) retail	170,9	194,1	241,5
9. Total equity	115,9	121,1	130,5
10. Total Provisions	84,6	95,7	106,6
11. Off-balance sheet	1 731,1	748,0	985,4
12. INCOME STATEMENT	2003	2004	2005
13. Net interest income	41,7	42,9	43,1
14. Net non-interest income	25,2	34,0	34,7
15. General administrative expenses	40,1	40,2	40,7
16. Depreciation	6,6	7,7	10,4
17. Net provisions	9,0	15,0	11,4
18. Profit before Tax	11,0	13,8	15,0
19. Tax on profit	4,7	6,0	3,4
20. Other Taxes	0,8	0,9	0,0
Number of employees (at the year-end)	3 805	3 619	3 596
SHARES			
• Number of shareholders	919	901	906
• Number of shares	7 682 015	7 682 015	7 682 015
• Nominal value of a share (in SIT)	2 000	2 000	2 000
• Book value of a share (in SIT)	15 086	15 764	16 990
21. FIGURES	in %	in %	in %
22. a) Capital			
23. Amount	102,1	127,6	137,1
24. Capital adequacy ratio	10,2	11,7	10,2
25. b) Asset quality			
26. Non-performing asset portfolio (B, C, D, E) total assets before charge for provisions	11,93	12,08	11,78
27. Special provisions for on-balance sheet/ total assets before charge for provisions *	3,93	3,98	3,85
28. Special provisions for on-balance sheet/non-performing asset portfolio (B, C, D, E) *	27,11	32,93	32,70
29. c) Profitability			
30. Net interest margin	2,70	2,59	2,30
31. Return on total average assets before tax	0,66	0,78	0,74
32. Return on total average assets after tax	0,33	0,42	0,58
33. Return on capital before tax	9,85	11,93	12,45
34. Return on capital after tax	4,91	5,95	9,64
35. d) Total operating expenses			
36. Total operating expenses/average total assets	2,81	2,71	2,54
37. e) Liquidity			
38. Avg. liquidity assets/avg. demand deposits	30,84	23,67	25,45
39. Secondary liquidity/demand deposits	100,69	80,03	59,45

* figures 27. in 28. include also country risk provisions

To the Shareholders and Board of Directors of the Nova Ljubljanska banka d.d., Ljubljana

We have audited the balance sheet of Nova Ljubljanska banka d.d., Ljubljana as at 31 December 2005 and the related profit and loss statement, statement of changes in equity and statement of changes in financial position for the year then ended. These financial statements 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. 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 management, 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 financial statements present fairly, in all material respects, the financial position of Nova Ljubljanska banka d.d., Ljubljana at 31 December 2005, and of the results of its operations and changes in financial position for the year then ended in accordance with Slovenian Accounting Standards.

Ljubljana, 28. april 2006

PricewaterhouseCoopers d.o.o.

Jože Plevnik, pooblaščen revizor



Francois Mattelaer, partner

This audit report has been translated from the Slovenian original. This translation is provided for reference purposes only and is not to be signed.

→ Income statement

in thousands of tolar	Notes	2005	2004
Interest and similar income	3	82,212,537	83,193,455
Interest and similar expenses	3	(44,065,710)	(45,265,766)
Net interest and similar income		38,146,827	37,927,689
Income from capital investments and securities held for trading	4	10,820,876	9,088,962
Fees and commissions income	5	29,044,469	26,692,965
Fees and commissions expenses	5	(6,104,488)	(5,642,699)
Net fees and commissions		22,939,981	21,050,266
Gains from financial transactions	6	40,839,825	52,266,978
Losses from financial transactions	6	(37,527,742)	(45,250,696)
Net profit from financial transactions		3,312,083	7,016,282
Other operating income	7	3,403,477	2,683,428
Employee costs	8	(25,201,177)	(25,285,007)
Costs of material and services	9	(15,478,179)	(14,963,072)
Depreciation, amortisation and revaluation expenses from property, equipment and intangible assets	10	(10,407,706)	(7,667,604)
Other operating expenses	11	(2,767,987)	(1,902,465)
Net provisions for losses on loans and receivables and write offs less any recoveries	12	(9,814,670)	(12,072,470)
Provisions for general banking risks	34	-	(2,150,000)
OPERATING PROFIT		14,953,525	13,726,009
Extraordinary income	13	68,022	67,760
Extraordinary expenses	13	(980)	(3,868)
Extraordinary profit (loss)		67,042	63,892
PROFIT BEFORE TAX		15,020,567	13,789,901
Tax on profit	14	(4,817,429)	(5,973,193)
Deferred tax	14	1,430,659	-
Other taxes	14	-	(935,971)
NET PROFIT FOR THE PERIOD		11,633,797	6,880,737

→ Balance sheet

in thousands of tolar	Notes	31.12.2005	31.12.2004
Cash and balances with the Central Bank	15	67,091,672	50,941,783
Placements with, and loans to, other banks	16	217,950,292	189,875,786
Loans and advances to customers	17	1,140,207,498	900,389,684
Debt securities not held for trading	18	459,116,091	454,054,305
Securities held for trading	19	172,235,602	132,716,261
Investments in subsidiaries, associated and jointly controlled companies	20	83,868,065	50,511,108
Investments in other companies	21	617,155	620,540
Intangible assets	22	18,126,195	18,479,736
Property and equipment	23	35,492,756	37,279,282
Other assets	25	23,505,509	18,237,351
Accrued income and deferred expenses	26	13,090,194	11,665,963
TOTAL ASSETS		2,231,301,029	1,864,771,799
Deposits and borrowings from banks	28	596,775,395	315,266,777
Deposits and borrowings from other customers	29	1,221,792,688	1,188,191,151
Debt securities	30	99,927,638	95,467,606
Other liabilities	31	17,791,864	19,254,022
Accruals and deferred income	32	12,386,070	9,526,396
Provisions for liabilities and charges	33	41,795,353	36,777,485
Provisions for general banking risks	34	5,989,370	5,989,370
Subordinated liabilities	35	104,322,631	73,201,428
Subscribed capital	36	15,364,030	15,364,030
Equity reserves		13,603,399	13,603,399
Profit reserves		77,319,000	70,814,025
Capital revaluation adjustment		18,416,625	17,875,740
Retained earnings		67	2
Net profit for the period		5,816,899	3,440,368
TOTAL LIABILITIES		2,231,301,029	1,864,771,799
Off-balance sheet	37	985,346,926	747,661,027

The Management Board authorised for issue the financial statements and notes to the financial statements.








Erik Luts Member of the 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
Marjan Kramar President of the Management Board & CEO

Ljubljana, 28 April 2006

→ Cash flow
statement

in thousands of tolar	Year 2005	Year 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	124,263,555	127,004,549
Interest and similar income	80,085,238	81,045,321
Fees and commissions income	28,880,494	26,678,898
Recoveries from loans previously written off	379,737	442,572
Income from capital investments and securities held for trading	7,833,181	7,885,715
Net profit from financial transaction	3,803,170	8,317,362
Other operating income	3,281,735	2,634,681
Outflows from operating activities	(97,594,458)	(103,280,954)
Interest and similar expenses	(42,617,173)	(53,628,751)
Fees and commissions expenses	(5,919,219)	(5,602,693)
Employee costs	(25,002,809)	(25,416,623)
Material and services costs	(15,807,781)	(13,953,999)
Other operating expenses	(1,065,153)	(172,396)
Taxation paid	(7,182,323)	(4,506,492)
Operating income before changes in operating assets and liabilities	26,669,097	23,723,595
Increase in operating assets	(260,469,839)	(223,790,694)
Net increase in loans to banks	(24,769,943)	(93,742,560)
Net increase in loans and advances to customers	(242,591,223)	(124,283,922)
Net decrease/(increase) in securities held for trading	1,434,927	(2,367,036)
Net decrease/(increase) in other operating assets	5,456,400	(3,397,176)
Increase in operating liabilities	71,312,940	47,212,999
Net increase/(decrease) in deposits from banks	30,753,832	(13,563,280)
Net increase in deposits from other customers	37,878,606	60,395,285
Net increase in other operating liabilities	2,680,502	380,994
Net inflow from operating activities	(162,487,802)	(152,854,100)
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows from investing activities	73,245,399	198,457,547
Sale of debt securities	69,884,152	198,089,852
Sale of investment in subsidiaries, associated companies and other companies	3,269,491	304,717
Sale of property, equipment and intangible assets	91,756	62,978
Outflows from investing activities	(112,538,895)	(72,517,037)
Purchase of debt securities	(69,600,056)	(59,100,533)
Purchase of investments in subsidiaries, associated companies and other companies	(35,384,906)	(3,614,890)
Purchase of property, equipment and intangible assets	(7,553,933)	(9,801,614)
Net inflow or net outflow from investing activities	(39,293,496)	125,940,510
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	761,745,820	866,795,282
Borrowings from banks and other customers	690,086,021	778,949,970
Increase in debt securities and subordinated liabilities	71,659,799	87,845,287
Sale of treasury shares	-	25
Outflows from financing activities	(491,668,952)	(779,707,944)
Dividends paid	(2,752,134)	(2,197,228)
Debts repayment	(452,859,173)	(696,751,121)
Decrease in debt securities and subordinated liabilities	(36,057,645)	(80,759,595)
Net inflow or net outflow from financing activities	270,076,868	87,087,338
Effect of exchange rate changes on cash and cash equivalents	4,091,585	1,069,440
CASH AND CASH EQUIVALENTS AT END OF PERIOD	538,071,801	465,684,646
Financial result for the period	72,387,155	61,243,188
Cash and cash equivalents at the beginning of period	465,684,646	404,441,458

→ Statements of
changes in equity

in thousands of tolar	2005									
	Subscribed capital	Equity reserves	Profit reserves	Treasury shares fund	Retained profit	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit for the period	Total shareholders equity	
Balance at 1 January 2005	15,364,030	13,603,399	70,323,201	490,824	2	11,791,560	6,084,180	3,440,368	121,097,564	
Transfers to equity	-	-	-	-	67	-	1,104,958	11,633,797	12,738,822	
Specific capital revaluation	-	-	-	-	-	-	1,104,958	-	1,104,958	
Net profit for the period	-	-	-	-	-	-	-	11,633,797	11,633,797	
Other	-	-	-	-	67	-	-	-	67	
Transfers within equity	-	-	6,504,975	-	(2)	-	-	(6,504,973)	-	
Allocation of net profit for the period	-	-	5,816,898	-	-	-	-	(5,816,898)	-	
Other	-	-	688,077	-	(2)	-	-	(688,075)	-	
Transfers from equity	-	-	-	-	-	-	(564,073)	(2,752,293)	(3,316,366)	
Dividends paid	-	-	-	-	-	-	-	(2,752,293)	(2,752,293)	
Transfer of revaluation gains on financial assets to income statement	-	-	-	-	-	-	(564,073)	-	(564,073)	
Balance at 31 December 2005	15,364,030	13,603,399	76,828,176	490,824	67	11,791,560	6,625,065	5,816,899	130,520,020	
in thousands of tolar	2004									
	Subscribed capital	Equity reserves	Profit reserves	Treasury shares fund	Retained profit	General capital revaluation adjustment	Specific capital revaluation adjustment	Net profit for the period	Total shareholders equity	
Balance at 1 January 2004	15,364,030	13,603,376	66,333,481	490,826	37	11,791,560	5,564,235	2,746,677	115,894,222	
Transfers to equity	-	23	-	-	-	-	1,032,841	6,880,737	7,913,601	
Specific capital revaluation	-	-	-	-	-	-	1,032,841	-	1,032,841	
Net profit (loss) for the period	-	-	-	-	-	-	-	6,880,737	6,880,737	
Other	-	23	-	-	-	-	-	-	23	
Transfers to equity	-	-	3,989,720	(2)	(35)	-	-	(3,989,683)	-	
Allocation of net profit for the period	-	-	3,440,369	-	-	-	-	(3,440,369)	-	
Transfer of capital items to own shares	-	-	-	(2)	2	-	-	-	-	
Other	-	-	549,351	-	(37)	-	-	(549,314)	-	
Transfers from equity	-	-	-	-	-	-	(512,896)	(2,197,363)	(2,710,259)	
Dividends paid	-	-	-	-	-	-	-	(2,197,363)	(2,197,363)	
Transfer of revaluation gains on financial assets to income statement	-	-	-	-	-	-	(512,896)	-	(512,896)	
Balance at 31 December 2004	15,364,030	13,603,399	70,323,201	490,824	2	11,791,560	6,084,180	3,440,368	121,097,564	

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 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 2005. The management also confirm that applicable legislation and Slovenian Accounting 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 to prevent and detect fraud and other irregularities.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties.

Management Board

					
Erik Luts Member of the 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	Marjan Kramar President of the Management Board & CEO

Ljubljana, 28. April 2006

Notes to financial statements

1. GENERAL INFORMATION

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 35.41 % 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 2005 was 2.3 % (2004: 3.2 %). The exchange rate changed from 239.7 tolar to the euro at 31 December 2004 to 239.6 tolar to the euro at 31 December 2005, and from 176.2 tolar to the US dollar at 31 December 2004 to 202.4 tolar to the US dollar at 31 December 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements have been prepared in accordance with Slovene 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, commission and fee 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. Income from non-performing loans (C, D and E grading groups) is excluded until paid, and reported as allowances for bad and doubtful interest receivables 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) Treasury shares

Treasury shares constitute a part of the company's share capital, presented as assets in the balance sheet. Gains and losses on sale of treasury 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

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 Bank or other liabilities when unfavourable to the Bank.

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

Losses on derivative financial instruments, treated as held for trading, are 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. Profits from the derivatives are recognised to the extent of losses on hedged item in accordance with prudence principle.

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.

The income statement includes foreign exchange differences from certain financial derivatives, which are providing effective economic hedges in respect of foreign currency risk exposure.

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, foreign exchange risk and operating 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 to the income statement 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 the higher of net selling price and value in use. When value in use exceeds carrying amount that indicates that assets are not impaired. In case of significant increases in market prices the Bank will reconsider the possibility of revaluation.

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:

%	2005	2004
Buildings	2	2
Computers	14.3 - 25	14.3 - 25
Furniture and other equipment	10 - 20	10 - 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 recoverable amount.

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

The following annual amortisation rates are applied:

%	2005	2004
Leasehold Improvements	20	20
Software	10 - 20	10 - 20
Integral information system	10	10
Other intangible assets	20 - 33.3	20 - 33.3

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 Central Bank, securities held for trading, loans to banks and debt securities not held for trading with maturity up to 90 days.

Cash flow statement is prepared by using direct method.

q) Tax on profit and deferred tax

Income tax consists of current and deferred tax.

Current income tax is calculated by using 25% rate in accordance with the Income Tax Law. Balance sheet tax was abolished in the year 2005.

Deferred tax is calculated for all temporary differences between accounting profit and taxable profit. Deferred tax asset is recognised for all deductible temporary differences only if it is probable that the taxable profit will be available against which the temporary differences can be utilised.

New Income Tax Law came into force in the year 2005 and has introduced temporary differences between accounting and tax treatment of certain expenses.

According to new Income Tax Law revaluation expenses are tax deductible only when assets are sold and liabilities are settled. Expenses relating to establishment of provisions are tax deductible when they are utilised. When in later periods income arises from these items it is exempt from taxable profit.

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.

s) Segmental reporting

Business segments provide products or services that are subject to risk and returns that are different from those of other business segments.

t) Significant events after the Balance sheet date

From 1 January 2006 the banks in Slovenia will legally switch to IFRS. Therefore the financial statements of the Bank under IFRS will become its statutory financial statements. According to the Corporate Tax Law the deferred tax liability as at 31 December 2005 amounting 7,825,872 thousand tolar which is based on the differences between local standards and IFRS will on 1 January 2006 become the current tax liability payable in the period of three years starting in 2007. Equity of the Bank will increase by 16,935,990 thousand tolar as a result of switch to IFRS.

NLB d.d. signed in April 2006 a contract with foreign banks for syndicated loan in the amount of 168 billion tolar with the maturity 5 years. This event represents the biggest international loan arrangement in Slovenia and one of the most significant loan arrangements in the Central and Eastern Europe financial markets. Syndicate involves 35 foreign banks from 18 countries and 5 continents. Loan will be used to finance Slovenian companies under more competitive conditions.

3.
→ Interest income
and expense

a) Analysis by type of assets and liabilities

in thousands of tolar	Year 2005	Year 2004
Interest income		
Deposits with the Central Bank	3,886,922	1,656,420
Loans and advances to other banks	2,644,011	1,848,446
Loans and advances to customers	54,170,489	53,853,127
Deposits to banks	1,538,593	1,516,478
Deposits to customers	757,386	135,840
Debt securities not held for trading	17,952,358	23,944,391
Other assets	1,262,778	238,753
TOTAL	82,212,537	83,193,455
Interest expense		
Demand deposits from banks	346,701	297,072
Time deposits from banks	2,716,083	2,650,240
Borrowings from banks	8,036,719	5,137,831
Demand deposits from other customers	2,593,846	2,235,812
Time deposits from other customers	19,680,078	24,903,807
Borrowings from other customers	703,669	860,862
Debt securities	7,430,728	6,834,318
Subordinated liabilities	1,783,862	2,102,863
Other liabilities	774,024	242,961
TOTAL	44,065,710	45,265,766
NET INTEREST AND SIMILAR INCOME	38,146,827	37,927,689

b) Analysis by sector

in thousands of tolar	Year 2005		Year 2004	
	Income	Expenses	Income	Expenses
Enterprises	30,232,823	5,391,068	29,417,717	6,827,099
Government departments and agencies	9,981,349	2,234,315	13,014,915	2,816,533
Banks	17,149,906	16,507,682	17,978,377	11,231,415
Citizens	19,341,635	14,461,653	18,681,202	18,034,914
Other financial organizations	1,328,800	4,859,178	1,234,414	5,738,743
Non-residents	3,074,787	282,997	1,710,463	271,889
Non-profit service providers to households	36,924	320,404	48,777	308,875
Default interest	1,066,313	8,413	1,107,590	36,298
TOTAL	82,212,537	44,065,710	83,193,455	45,265,766

Interest income from loans to foreign banks and to other foreign costumers amounted to tolar 6,579,638 thousand in the year 2005 (tolars 3,842,472 thousand in the year 2004), while interest expenses from borrowings and deposits from foreign banks and other foreign customers amounted to tolar 13,887,204 thousand in the year 2005 (tolars 6,951,645 thousand in the year 2004).

4.
→ Income from capital
investments and
securities held for trading

in thousands of tolar	Year 2005	Year 2004
Income from investments in subsidiaries and associated companies		
In subsidiaries		
• Banks	2,295,823	1,998,677
• Other financial organizations	2,422,872	1,233,949
• Enterprises	4,223	2,500
In associated companies		
• Banks	564,054	512,896
Income from other investments		
• Banks	2,872	2,872
• Other financial organizations	10,699	10,569
• Enterprises	44	29
Income from securities held for trading		
• Dividends	531,301	364,496
• Interest	4,988,988	4,962,974
TOTAL	10,820,876	9,088,962

5.
→ Income and expenses
from fees and
commissions

in thousands of tolar	Year 2005	Year 2004
Fees and commissions income:		
Payments	7,770,589	7,614,186
Agency services/brokerage	8,218,018	7,343,932
Administrative services	7,270,393	6,327,608
Lending	3,512,520	3,080,275
Guarantees	2,033,935	2,114,882
Depositing valuables in safe custody	239,014	212,082
TOTAL	29,044,469	26,692,965
Fees and commissions expense:		
Banking services	4,121,768	3,946,249
Agency services/brokerage	1,573,103	1,369,302
Brokerage	258,446	188,166
Payments	151,171	138,982
TOTAL	6,104,488	5,642,699
NET FEES AND COMMISSIONS	22,939,981	21,050,266

6.
→ Net profit from
financial transactions

in thousands of tolar	Year 2005	Year 2004
Gains from financial transactions		
Income from securities held for trading	6,357,083	5,622,666
Income from valuation of securities:		
• debt securities not held for trading	30,729	44,864
• securities held for trading	1,155,043	675,789
• investments in subsidiaries, associated companies and jointly controlled companies	27	158,002
• investments in other companies	-	331,282
• other investments	4,500	-
Foreign exchange differences	19,315,693	29,046,336
Income from derivative financial instruments	7,537,578	6,396,737
Income arising from dealing in foreign currency	6,439,172	9,991,302
TOTAL	40,839,825	52,266,978
Losses from financial transactions		
Expenses from securities held for trading	389,217	257,638
Expenses from valuation of securities:		
• debt securities not held for trading	645,139	240
• securities held for trading	1,733,675	1,046,453
• investments in subsidiaries, associated companies and jointly controlled companies	999,711	765,018
• investments in other companies	3,269	142,414
• other investments	5,963	9,924
Foreign exchange differences	18,891,686	27,502,647
Expenses from derivative financial instruments	10,621,052	7,711,410
Expenses arising from dealing in foreign currency	4,238,030	7,814,952
TOTAL	37,527,742	45,250,696
NET PROFIT FROM FINANCIAL TRANSACTIONS	3,312,083	7,016,282

7.
→ Other operating income

a) Analysis by type	Year 2005	Year 2004
in thousands of tolar		
Income from non-banking services		
• information technology services	1,852,732	1,220,599
• other services	1,280,060	1,056,916
Income from sale of tangible assets	44,563	28,360
Other operating income	226,122	377,553
TOTAL	3,403,477	2,683,428

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8.
→ Employee costs

in thousands of tolar	Year 2005	Year 2004
Gross salaries	17,346,926	16,877,606
Social security costs		
• pension security contributions	1,561,093	1,557,709
• social security contributions	1,356,309	1,346,753
• other contributions	1,223,119	1,184,505
Other employee costs	3,713,730	4,318,434
TOTAL	25,201,177	25,285,007

9.
→ Costs of material and services

in thousands of tolar	Year 2005	Year 2004
Services	7,722,864	6,399,001
Maintenance	1,883,928	2,225,033
Material	1,807,945	1,930,035
Rental costs	1,482,358	1,900,870
Advertising	894,502	813,596
Insurance	691,403	662,922
Travel costs	449,921	335,878
Education and scholarships	213,216	256,025
Entertainment expenses	228,309	227,499
Other expenses	103,733	212,213
TOTAL	15,478,179	14,963,072

10.
→ Depreciation, amortisation and revaluation expenses from property, equipment and intangible assets

in thousands of tolar	Year 2005	Year 2004
Depreciation of property and equipment	4,361,741	4,609,794
Amortisation of intangible assets	2,545,810	2,042,129
Revaluation expenses from intangible and tangible assets (note 22)	3,500,155	1,015,681
TOTAL	10,407,706	7,667,604

11.
→ Other operating expenses

in thousands of tolar	Year 2005	Year 2004
Taxes	41,449	26,905
Membership fees	237,543	226,152
Other employee costs	762,916	744,874
Charges for general banking risk provisions	1,633,823	742,964
Other operating expenses	92,256	161,570
TOTAL	2,767,987	1,902,465

In the year 2005 the Bank established provisions in the amount of tolar 1,013,000 thousand presenting estimated obligation to return premiums to Residential fund of the Republic of Slovenia in the case clients would decide not to raise a loan under the conditions granted by the national saving scheme.

In the year 2005 the Management Board of the Bank decided to continue further the restructuring process in order to reduce the operating expenses. Therefore the bank established restructuring provisions in the amount of tolar 600,000 thousands.

12.
→ Net provisions for losses on loans and receivables and write offs less any recoveries

a) Provisions and write offs

in thousands of tolar	Year 2005		Year 2004	
	Provisions made	Provisions released	Provisions made	Provisions released
Write off of irrecoverable loans and debts	802,947	-	3,787,018	-
Write back of loans and debts	-	379,737	-	442,572
Provisions for A graded balance sheet and off-balance sheet assets	12,131,437	9,310,446	10,330,446	9,138,338
Provisions for other off-balance sheet assets	12,447,162	14,177,283	12,913,152	11,757,689
Country risk provisions	14,164,080	10,915,936	14,091,425	12,218,170
Provisions for balance sheet assets, classified in other credit rating groups:				
• loans and advances to banks	3,303,605	4,422,606	3,268,400	1,734,385
• loans and advances to other customers	35,217,369	29,223,323	33,035,692	30,478,967
• other assets	2,019,491	1,338,703	2,036,572	1,910,601
• accrued interest due	-	-	5,095	-
Provisions for operational risk	-	-	500,000	-
TOTAL	80,086,091	69,768,034	79,967,800	67,680,722

b) Other provisions

in thousands of tolar	Year 2005	Year 2004
	Provisions released	Provisions released
Negative goodwill	214,579	214,580
Other long-term provisions	288,808	28
TOTAL	503,387	214,608

13.
→ Extraordinary profit

in thousands of tolar	Year 2005	Year 2004
Extraordinary income		
Income from compensation-rewards and similar	67,332	64,211
Other extraordinary income	690	3,549
TOTAL	68,022	67,760
Extraordinary expenses		
Expenses for penalty and similar	980	3,868
TOTAL	980	3,868
EXTRAORDINARY PROFIT	67,042	63,892

14.
→ Tax

in thousands of tolar	Year 2005	Year 2004
Tax on profit	4,817,429	5,973,193
Deferred tax (notes 2 and 25)	(1,430,659)	-
Other taxes (note 2)	-	935,971
TOTAL	3,386,770	6,909,164

Deferred tax asset is recognised for temporary differences relating to expenses from the revaluation of securities and creation of provisions. Balance sheet tax was abolished in the year 2005.

15.
→ Cash and balances with the Central Bank

in thousands of tolar	31.12.2005		31.12.2004	
	Tolars	Foreign currency	Tolars	Foreign currency
Cash	11,449,411	5,688,953	11,548,396	4,443,395
Balances with the Central Bank	48,822,325	-	34,230,763	-
Deposits with the Central Bank	-	1,130,983	-	719,229
	60,271,736	6,819,936	45,779,159	5,162,624
TOTAL	67,091,672		50,941,783	

The Bank is required to maintain an obligatory reserve with the Bank of Slovenia, relative to the volume and structure of its customer deposits. According to the regulations of the Bank of Slovenia obligatory reserve is calculated in the amount of 2% of all deposits with the maturity up to 2 years. In December 2005, the obligatory reserve of the Bank amounted to tolar 25,542,737 thousand.

16.
→ Placements with, and loans to other banks

a) Maturity analysis

in thousands of tolar	31.12.2005	31.12.2004
Short-term loans		
• in tolar	5,681,982	3,521,550
• In foreign currency	63,017,875	69,166,111
Long-term loans		
• in tolar	31,806	87,443
• In foreign currency	48,589,107	33,091,653
Long term deposits with the Central Bank		
• in tolar	87,576,000	75,590,000
Current portion of long-term loans		
• in tolar	-	57,827
• In foreign currency	14,912,615	11,339,296
	219,809,385	192,853,880
Provisions	(1,859,093)	(2,978,094)
TOTAL	217,950,292	189,875,786

A detailed maturity analysis of loans to banks is given in Note 43 - Balance sheet maturity analysis.

b) Analysis by type of loan

in thousands of tolar	31.12.2005	31.12.2004
Demand deposits	15,355,682	8,095,591
Time deposits	131,752,378	124,629,156
Loans	71,481,572	57,821,959
Called guarantees	21,921	21,936
Other investments	1,197,832	2,285,238
	219,809,385	192,853,880
Provisions	(1,859,093)	(2,978,094)
TOTAL	217,950,292	189,875,786

c) Geographical analysis

in thousands of tolar	31.12.2005	31.12.2004
Slovenia	129,963,835	109,171,996
OECD countries	38,326,897	41,565,399
Other countries	49,659,560	39,138,391
TOTAL	217,950,292	189,875,786

d) Analysis by related party

in thousands of tolar	31.12.2005	31.12.2004
Subsidiaries	75,267,928	61,237,407
Associated banks	6,414,080	8,197,270
Other banks	138,127,377	123,419,203
	219,809,385	192,853,880
Provisions	(1,859,093)	(2,978,094)
TOTAL	217,950,292	189,875,786

e) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	189,875,786	120,988,996
Increase:		
• loans made	12,713,506,028	6,005,827,750
• foreign exchange differences	2,544,608	(229,233)
Decrease:		
• repayments	(12,689,095,130)	(5,935,058,712)
• write offs	-	(119,000)
Provisions	1,119,000	(1,534,015)
Balance at 31 December	217,950,292	189,875,786

17.
→ Loans and advances
to customers

a) Analysis by type of customer

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
In tolar				
• enterprises	94,634,979	164,572,005	116,839,509	163,677,076
• government department and agencies	3,907,029	19,193,648	243,259	22,534,699
• citizens	43,162,805	157,703,640	39,399,770	169,435,277
• other financial organizations	4,599,390	6,959,490	4,179,418	8,442,374
• non-profit household service providers	258,400	152,281	327,843	244,183
• non-residents	4,077	-	-	-
In foreign currency				
• enterprises	117,254,691	341,377,666	63,190,463	238,787,322
• government department and agencies	31	1,832,771	19,479	1,569,302
• citizens	1,661,154	73,743,305	602,314	12,915,002
• other financial organizations	10,284,863	35,749,162	3,900,147	19,204,046
• non-profit household service providers	5,103	181,648	-	-
• non-residents	63,789,016	47,069,808	48,281,903	28,442,413
Current portion of long-term loans	186,665,889	(186,665,889)	156,301,609	(156,301,609)
	526,227,427	661,869,535	433,285,714	508,950,085
Provisions	(31,450,467)	(16,438,997)	(27,481,440)	(14,364,675)
	494,776,960	645,430,538	405,804,274	494,585,410
TOTAL	1,140,207,498		900,389,684	

The total amount of non-performing loans (C, D and E grading groups) amounted to tolar 57,104,846 thousand as at 31 December 2005 (tolars 50,119,021 thousand as at 31 December 2004), while loans overdue amounted to tolar 22,936,352 thousand (tolars 17,860,835 thousand as at 31 December 2004). Interest income from non-performing loans, not recognised as income, amounted to tolar 3,406,234 thousand as at 31 December 2005 (tolars 3,541,381 thousand as at 31 December 2004).

b) Analysis by sector

in thousands of tolar	31.12.2005	31.12.2004
Manufacturing	255,501,785	221,327,063
Commerce and finance	251,887,988	188,270,321
Citizens	244,595,232	196,947,332
Services	233,930,126	166,341,751
Transport and communication	69,521,459	58,777,741
Construction	46,355,384	33,022,366
Small enterprises	32,806,268	26,355,737
Government departments and agencies	24,481,378	23,619,863
Agriculture, forestry and fishing	9,929,222	9,588,521
Energy	9,565,544	10,324,296
Mining	4,759,708	4,199,909
Other	4,762,868	3,460,899
	1,188,096,962	942,235,799
Provisions	(47,889,464)	(41,846,115)
TOTAL	1,140,207,498	900,389,684

c) Analysis by type of advance

in thousands of tolar	31.12.2005	31.12.2004
Loans	1,118,053,767	880,194,762
Overdrafts	44,059,965	38,686,619
Purchased loans and receivables	24,597,254	22,010,042
Called guarantees	1,367,612	1,199,058
Other investments	18,364	145,318
	1,188,096,962	942,235,799
Provisions	(47,889,464)	(41,846,115)
TOTAL	1,140,207,498	900,389,684

d) Guaranteed loans

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

in thousands of tolar	31.12.2005	31.12.2004
Loans:		
• Republic of Slovenia guarantees	65,541,868	71,739,316
• Other bank's guarantees	30,120,472	3,648,802
TOTAL	95,662,340	75,388,118

e) Geographical analysis

in thousands of tolar	31.12.2005	31.12.2004
Slovenia	1,034,526,974	831,077,650
OECD countries	56,127,154	48,303,092
Other countries	49,553,370	21,008,942
TOTAL	1,140,207,498	900,389,684

f) Analysis by related party

in thousands of tolar	31.12.2005	31.12.2004
Subsidiaries	71,102,483	51,176,408
Associated and jointly controlled companies	6,112,159	2,597,568
Other companies	812,866	4,345,882
Others	1,110,069,454	884,115,941
	1,188,096,962	942,235,799
Provisions	(47,889,464)	(41,846,115)
TOTAL	1,140,207,498	900,389,684

g) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	900,389,684	779,362,127
Increase:		
• loans made	2,000,598,440	1,708,952,024
• interest added to principal	15,891,487	14,481,676
• exchange differences	3,722,413	2,633,455
Decrease:		
• repayments	(1,773,898,699)	(1,599,201,202)
• write offs	(452,477)	(3,301,404)
Provisions	(6,043,350)	(2,536,992)
Balance at 31 December	1,140,207,498	900,389,684

18.
→ Debt securities not held for trading

a) Analysis by type of securities, available for sale

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
• Certificate of deposit of the Bank of Slovenia	124,816,587	-	167,526,779	-
• Bonds	-	48,420,281	-	12,359,579
In tolar				
• Bonds of the Republic of Slovenia	-	136,382,689	-	135,860,215
• Bonds from others	-	1,846,933	-	888,305
• Certificate of deposit of the Bank of Slovenia	138,500,000	-	107,734,649	-
Current portion of investment securities	18,724,294	(18,724,294)	11,039,978	(11,039,978)
	282,040,881	167,925,609	286,301,406	138,068,121
TOTAL	449,966,490		424,369,527	

Other securities include bonds with a total value of tolar 888,084 thousand, which have the nature of a subordinate debt. Other than interest entitlement and the right to repayment of the principal the Bank does not have any other rights deriving from these bonds. Bonds from others include also own bonds of the Bank with the value of tolar 958,848 thousand.

The market value of debt securities available for sale exceeds their carrying value by tolar 1,979,474 thousand as at 31 December 2005 (to lar 3,098,945 thousand as at 31 December 2004).

b) Analysis by type of securities, held to maturity

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
• Bonds of the Republic of Slovenia	-	676,926	-	999,454
• Other bonds	-	8,472,675	-	4,892,879
In tolar				
• Bonds of the Republic of Slovenia	-	-	-	23,792,445
Current portion of investment securities	676,926	(676,926)	400,791	(400,791)
	676,926	8,472,675	400,791	29,283,987
TOTAL	9,149,601		29,684,778	

At 31 December 2005 securities not held for trading amounting to tolar 123,943,433 thousand were listed on the stock exchange (to lar 84,655,062 thousand as at 31 December 2004).

In the year 2005 the government of the Republic of Slovenia redeemed bonds RS06, which contained call option.

c) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	454,054,305	535,071,514
Increase:		
• purchase of securities	805,404,741	274,435,806
• revaluation and exchange differences	4,211,471	5,616,511
Decrease:		
• sale or repayments of securities	(804,067,434)	(360,831,909)
• transfer to securities held for trading	-	(276,690)
Impairment/reversal of impairment	(486,992)	39,073
Balance at 31 December	459,116,091	454,054,305

19.
→ Securities held for trading

a) Analysis by type of securities

in thousands of tolar	31.12.2005	31.12.2004
Certificates of deposits of the Bank of Slovenia	35,500,000	18,685,247
Bonds		
• Republic of Slovenia	36,609,728	39,018,952
• other issuers	68,246,631	41,736,747
Shares		
• banks	3,189,286	356,989
• other issuers	19,798,691	21,825,163
Treasury bills	6,235,462	5,995,097
Other securities	2,655,804	5,098,066
TOTAL	172,235,602	132,716,261

At 31 December 2005 the securities held for trading amounting to tolar 124,816,324 thousand were listed on the stock exchange (to lar 94,278,062 thousand as at 31 December 2004).

The market value of securities held for trading exceeds their carrying value by tolar 3,102,521 thousand as at 31 December 2005 (to lar 5,654,418 thousand as at 31 December 2004).

Other securities include bonds with a total value of tolar 101,949 thousand (to lar 102,387 thousand as at 31 December 2004), 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 tolar 955,232 thousands (to lar 1,747,608 thousand as at 31 December 2004).

b) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	132,716,261	100,775,593
Increase:		
• purchase of securities	475,149,257	364,893,762
• transfer from securities not held for trading	-	276,690
• interest added	318,802	474,902
• exchange differences	1,989,634	(366,887)
Decrease:		
• sale of securities	(437,359,720)	(332,966,418)
Impairment	(578,632)	(371,381)
Balance at 31 December	172,235,602	132,716,261

20.
Investments in
subsidiaries, associated
and jointly controlled
companies

a) Analysis by type of investment in subsidiaries

in thousands of tolar	31.12.2005	31.12.2004
In tolar		
• banks	18,794,448	17,633,508
• other financial organizations	3,527,227	2,850,644
• enterprises	2,678,119	2,890,986
In foreign currency		
• banks	40,477,970	11,236,261
• other financial organizations	5,222,885	3,429,748
TOTAL	70,700,649	38,041,147

The Bank's subsidiaries are:

in thousands of tolar	Equity as at 31 December 2005	Profit for the period 2005	Bank's shareholding %*	Voting rights %*	Balance of investment as of 31 December 2005
Koroška banka d.d., Slovenj Gradec	12,394,456	1,184,541	62.54	62.54	7,885,590
Banka Domžale d.d., Domžale	9,277,230	1,100,467	65.98	65.98	6,459,130
Banka Zasavje d.d., Trbovlje	6,627,288	526,779	70.80	70.80	4,449,727
LHB Internationale Handelsbank AG, Frankfurt/Main	11,575,778	995,248	56.01	56.01	9,688,401
Tutunska banka a.d., Skopje	10,825,095	1,408,744	17.29	43.01	1,794,839
LB InterFinanz AG, Zürich	3,870,498	1,451,842	100	100	3,876,660
LB Factoring a.s., Ostrava	1,227,302	283,057	100	100	1,230,232
Slovenska investicijska banka d.d., Ljubljana - v likvidaciji	(2,281,016)	18,845	80.78	80.78	-
NLB Montenegro banka a.d., Podgorica	3,008,579	9,583	5	5	133,537
Euromarket banka a.d., Podgorica	2,065,580	33,780	80.29	80.29	2,343,858
Continental banka a.d., Novi Sad	8,925,282	672,130	99.49	99.49	11,658,918
Tuzlanska banka d.d., Tuzla	4,001,094	566,346	83.54	83.64	7,653,278
Razvojna banka a.d., Banja Luka	3,273,710	76,680	92.42	92.42	6,439,604
LHB Banka a.d., Beograd	3,656,995	580,852	15.95	15.95	765,535
NLB Propria d.o.o., Ljubljana	2,619,606	(217,091)	100	100	2,552,272
LB Leasing d.o.o., Ljubljana	3,109,729	323,858	55	55	1,589,578
NLB Leasing d.o.o., Maribor	418,842	115,857	55	55	230,363
LB Leasing d.o.o., Koper	224,850	(150,930)	55	55	123,670
LB Maksima d.o.o., Ljubljana	855,969	216,408	95.95	95.95	821,218
NLB Leasing Velenje d.o.o., Velenje	(51,990)	35,546	100	100	-
NLB Skladi d.o.o., Ljubljana	762,398	216,871	100	100	762,398
Nov Penzijski fond a.d., Skopje	229,742	(131,410)	51	51	115,994
Prospera plus d.o.o., Ljubljana	125,847	4,223	100	100	125,847

*Ownership interest and voting power is calculated after a deduction of treasury shares.

In year 2005 the Bank acquired 99.49 % interest in Continental banka a.d. Novi Sad, 83.54 % interest in Tuzlanska banka d.d. Tuzla, 80.29 % interest in Euromarket banka a.d. Podgorica and 92.42 % interest in Razvojna banka. Together with Tutunska banka a.d. Skopje the Bank founded new subsidiary Nov Penzijski fond a.d., Skopje.

With additional shares' purchases the Bank increased its interest in Banka Domžale d.d., Domžale, Koroška banka d.d., Slovenj Gradec, Banka Zasavje d.d., Trbovlje, Tutunska banka a.d. Skopje and LHB Banka a.d., Beograd.

Tutunska banka a.d., Skopje, Montenegro banka a.d., Podgorica and LHB Banka a.d., Beograd are treated as subsidiaries according to the majority voting power held by the NLB Group.

b) Analysis by type of investment in associated and jointly controlled companies

in thousands of tolar	31.12.2005	31.12.2004
In tolar		
• banks	8,904,173	8,517,077
• other financial organizations	1,276,381	1,113,010
• enterprises	893,133	817,077
In foreign currency		
• banks	2,093,729	2,022,797
TOTAL	13,167,416	12,469,961

The principal associated companies are:

in thousands of tolar	Activity	Equity as at 31 December 2005	Profit for the period 2005	Bank's shareholding %	Voting rights %	Balance of investment as at 31 December 2005
Banka Celje d.d., Celje	Banking	30,143,394	2,982,873	30.62	37.52	8,904,173
Adria Bank AG., Wien	Banking	7,322,146	452,677	28.46	28.46	2,093,729
Bankart d.o.o., Ljubljana	Credit and payment cards	2,445,043	243,151	36.74	36.74	893,133
Skupna pokojninska družba d.d., Ljubljana	Insurance	1,092,982	85,815	27.49	27.49	406,205

*Ownership interest and voting power is calculated after a deduction of treasury shares.

Jointly controlled companies are:

in thousands of tolar	Activity	Equity as at 31 December 2005	Profit for the period 2005	Bank's shareholding %	Voting rights %	Balance of investment as at 31 December 2005
NLB Vita d.d., Ljubljana	Insurance	934,954	50,524	50	50	464,851
Prvi Faktor d.o.o., Ljubljana	Finance	918,474	52,190	50	50	405,325

c) Analysis of movement

in thousands of tolar	2005	2004
Balance at 1 January	50,511,108	45,692,997
New investments	34,029,258	3,571,988
Share of profits	6,973,049	4,449,389
Exchange differences	(231,545)	158,851
Share of losses	(367,118)	(387,290)
Dividend received	(2,000,043)	(2,568,141)
Amortization of goodwill and other adjustments	(1,777,180)	(564,686)
Reversal of impairment	-	158,000
Sale of investments	(3,269,464)	-
Balance at 31 December	83,868,065	50,511,108

In the year 2005 the Bank acquired 7.17% share in Banka Celje, which was sold at the end of the year in order to meet capital adequacy requirements.

21.
→ Investments in
other companies

a) Analysis by type of investment

in thousands of tolar	31.12.2005	31.12.2004
In tolar		
• other financial organizations	415,465	415,465
• enterprises	34,625	37,894
In foreign currency		
• other financial organizations	159,038	159,148
• enterprises	8,027	8,033
TOTAL	617,155	620,540

b) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	620,540	719,080
New investments	-	42,900
Sale of investments	-	(500)
Exchange differences	(116)	2,125
Impairment	(3,269)	(142,414)
Other	-	(651)
Balance at 31 December	617,155	620,540

22.
→ Intangible assets

in thousands of tolar	Software	Deferred Costs	Intangible Assets in Course of Transfer or Construction/ Implementation	Total
Cost or valuation				
Balance at 1 January 2005	16,489,674	1,965,278	6,262,414	24,717,366
Additions	4,270,632	64,261	1,537,265	5,872,158
Disposals	(196,019)	(71,226)	-	(267,245)
Write offs	(2,096,293)	-	(2,240,003)	(4,336,296)
Balance at 31 December 2005	18,467,994	1,958,313	5,559,676	25,985,983
Amortisation				
Balance at 1 January 2005	4,876,478	1,361,152	-	6,237,630
Disposals	-	(45,181)	-	(45,181)
Charge for the year	2,370,160	175,650	-	2,545,810
Write offs	(878,471)	-	-	(878,471)
Balance at 31 December 2005	6,368,167	1,491,621	-	7,859,788
Net carrying value				
Balance at 1 January 2005	11,613,196	604,126	6,262,414	18,479,736
Balance at 31 December 2005	12,099,827	466,692	5,559,676	18,126,195

Intangible assets include the Bank's information system with the carrying value of tolar 14,213,994 thousand (information system completed for use tolar 10,051,006 thousand, information system in course of implementation tolar 4,162,988 thousand). Accumulated amortisation of information system as at 31 December 2005 amounted to tolar 2,317,705 thousand while the amortisation costs of the system in the year 2005 amounted to tolar 1,031,734 thousand. The remaining useful life of the information system is between 6 and 10 years.

In the year 2005 the Bank wrote off the investment in software in the amount of tolar 3,457,825 thousand million as a consequence of changes in regulatory environment that resulted in certain assets not being useful any longer and had to be replaced.

23.
→ Property and
equipment

in thousands of tolar	Land & Buildings	Computers	Furniture and Equipment	Motor Vehicles	Assets in Course of Transfer or Construction/ Implementation	Total
Cost of valuation						
Balance at 1 January 2005	38,867,660	22,677,175	12,932,120	663,893	829,617	75,970,465
Addition	-	-	-	-	2,647,249	2,647,249
Transfer	367,639	1,681,757	324,659	77,552	(2,451,607)	-
Disposals	(32,308)	(2,104,337)	(338,139)	(96,260)	-	(2,571,044)
Balance at 31 December 2005	39,202,991	22,254,595	12,918,640	645,185	1,025,259	76,046,670
Depreciation						
Balance at 1 January 2005	11,498,887	16,742,480	9,873,226	576,590	-	38,691,183
Disposals	(11,731)	(2,067,577)	(327,567)	(92,155)	-	(2,499,030)
Charge for the year	755,668	2,515,703	1,035,574	54,816	-	4,361,761
Balance at 31 December 2005	12,242,824	17,190,606	10,581,233	539,251	-	40,553,914
Net carrying value						
Balance at 1 January 2005	27,368,773	5,934,695	3,058,894	87,303	829,617	37,279,282
Balance at 31 December 2005	26,960,167	5,063,989	2,337,407	105,934	1,025,259	35,492,756

24.
→ Treasury shares

In the year 2005 there were no contractual agreements between NLB Bank and third parties for the acquisition or disposal of NLB's shares on behalf of NLB Bank nor were there any contractual agreements for the pledge of NLB's shares as collateral on Behalf of NLB Bank.

Shares of NLB Bank held by its subsidiaries LB Propria d.o.o., Ljubljana and Koroška banka d.d., Slovenj Gradec amounted to tolar 490,824 thousand as at 31 December 2005. In respect of these shares NLB Bank formed treasury shares fund in the year 2002.

25.
Other assets

a) Analysis by type of asset

in thousands of tolar	31.12.2005	31.12.2004
Credit cards receivables	9,628,691	9,411,231
Non authorized overdrafts	5,410,355	4,979,361
Prepayments for the acquisition of capital investments	1,346,732	-
Other prepayments	2,382,181	392,612
Receivables in the course of collection	2,322,410	3,313,676
Accrued interest due	2,183,838	2,239,381
Deferred tax (note 14)	1,430,659	-
Claims for taxes and other dues	844,567	83,823
Derivative financial instruments	824,054	1,252,426
Fees and commissions due	512,793	343,479
Debtors	331,589	221,606
Investment property	228,656	240,085
Assets acquired for debt repayment	148,182	154,182
Cheques	121,920	68,782
Inventory	64,722	114,575
Other assets	1,429,624	446,808
TOTAL	29,210,973	23,262,027
Provisions	(5,705,464)	(5,024,676)
TOTAL	23,505,509	18,237,351

Receivables in the course of collection are temporary balances, which are according to the functionality of the information support system transferred to appropriate item of other assets within next few days after the occurrence.

b) Movement of investment property

in thousands of tolar	2005	2004
Balance at 1 January	240,085	208,708
Sale of investment property	(5,466)	-
Transfer from property plant and equipment	-	64,461
Valuation	-	(26,435)
Depreciation	(5,963)	(6,649)
Balance at 31 December	228,656	240,085

c) Analysis of provisions by type of asset

in thousands of tolar	31.12.2005	31.12.2004
Credit card receivables	116,288	130,852
Non authorized overdrafts	5,201,538	4,761,635
Other assets	387,638	132,189
TOTAL	5,705,464	5,024,676

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

in thousands of tolar	31.12.2005	31.12.2004
Accrued interest due	3,326,258	3,014,107
Accrued interest not yet due	144,806	566,335
Fees and commissions due	75,579	68,791
Debtors	59,277	61,901
TOTAL	3,605,920	3,711,134

26.
→ Accrued income and deferred expenses

in thousands of tolar	31.12.2005	31.12.2004
Accrued interest not yet due	12,802,983	11,234,594
Deferred expenses	262,361	393,799
Accrued fees not yet due	24,850	37,570
TOTAL	13,090,194	11,665,963

27.
→ Movements in provisions by type of asset

in thousands of tolar	Balance at 1 January 2005	Share in gross assets in %	Specific provisions made	Specific provisions released	Balance at 31 December 2005	Share in gross assets in %
Placements with, and loans to other banks	2,978,094	1.54	3,303,605	(4,422,606)	1,859,093	0.85
Placements with, and loans to other customers	41,846,115	4.44	35,266,672	(29,223,323)	47,889,464	4.03
Other assets	5,024,676	21.60	2,019,491	(1,338,703)	5,705,464	19.53
TOTAL	49,848,885		40,589,768	(34,984,632)	55,454,021	

28.
→ Deposits and borrowings from banks

a) Analysis of deposits

in thousands of tolar	31.12.2005	31.12.2004
On demand		
• in tolar	7,195,007	3,960,760
• in foreign currency	8,932,827	10,507,434
Other short-term deposits		
• in tolar	5,629,922	17,806,202
• in foreign currency	95,196,304	51,346,428
Long-term deposits		
• in tolar	15,000	5,000
• in foreign currency	30,516	1,532,828
Current portion of long-term deposits		
• in tolar	-	37,000
• in foreign currency	35,674	5,994
TOTAL	117,035,250	85,201,646

b) Analysis of borrowings

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
In foreign currency				
• commercial banks	31,156,402	448,583,743	359,615	229,705,516
Current portion of long-term borrowings	107,441,196	(107,441,196)	42,462,138	(42,462,138)
TOTAL	138,597,598	341,142,547	42,821,753	187,243,378
TOTAL a) in b)	255,587,332	341,188,063	126,485,571	188,781,206

596,775,395

315,266,777

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c) Analysis by related party

in thousands of tolar	31.12.2005	31.12.2004
Subsidiary banks	20,222,815	26,173,317
Associated banks	955,466	754,644
Other banks	575,597,114	288,338,816
TOTAL	596,775,395	315,266,777

d) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	315,266,777	252,670,722
Increase:		
• new borrowings and deposits	11,578,527,678	10,663,941,213
• exchange differences	2,891,061	426,318
• interest added to principal	247	24,524
Decrease:		
• repayments	(11,299,910,368)	(10,601,796,000)
Balance at 31 December	596,775,395	315,266,777

29.
→ Deposits and borrowings
from other customers

a) Analysis by type of customer

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
Demand deposits				
• enterprises				
• in tolar	60,607,320	-	51,543,756	-
• In foreign currency	26,722,720	-	25,618,855	-
• government departments and agencies				
• in tolar	11,292,258	-	14,522,809	-
• In foreign currency	770,383	-	549,364	-
• citizens				
• in tolar	269,387,921	-	249,972,641	-
• In foreign currency	168,924,065	-	44,991,186	-
• other financial organizations				
• in tolar	2,867,150	-	1,129,505	-
• In foreign currency	1,924,330	-	742,683	-
• non-profit household service providers				
• in tolar	8,721,299	-	8,275,961	-
• In foreign currency	2,297,282	-	1,194,842	-
• non-residents				
• in tolar	2,228,004	-	2,254,903	-
• In foreign currency	12,304,121	-	9,932,926	-
Time deposits				
• enterprises				
• in tolar	100,917,017	5,740,695	79,135,665	8,021,117
• In foreign currency	19,937,133	115,829	20,621,115	236,506
• government departments and agencies				
• in tolar	27,079,305	2,564,657	21,443,918	3,084,568
• In foreign currency	286,878	-	155,833	-
• citizens				
• in tolar	222,135,918	48,675,401	219,368,167	53,520,466
• In foreign currency	132,078,009	24,156,875	247,762,439	20,176,322
• other financial organizations				
• in tolar	9,148,572	14,755,981	25,698,404	17,850,097
• In foreign currency	1,221,310	38,075	3,394,453	50,958
• non-profit household service providers				
• in tolar	6,848,049	352,544	5,064,495	344,936
• In foreign currency	1,829,126	22,414	1,668,076	1,008
• non-residents				
• in tolar	831,870	78,137	908,530	59,031
• In foreign currency	7,000,921	3,430,086	11,517,115	2,659,159
Current portion of long-term deposits	43,978,784	(43,978,784)	51,462,745	(51,462,745)
TOTAL	1,141,339,745	55,951,910	1,098,930,386	54,541,423

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b) Analysis by type of customer

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
Government departments and agencies				
• in foreign currency	-	1,699,782	-	2,576,975
Other financial organizations				
• In tolar	1,370,955	1,297,914	3,575,755	1,554,538
• in foreign currency	-	19,837,436	-	20,649,338
Non-residents				
• in foreign currency	-	294,946	-	6,362,736
Current portion of long-term borrowings	3,138,613	(3,138,613)	5,303,340	(5,303,340)
TOTAL	4,509,568	19,991,465	8,879,095	25,840,247
TOTAL a) in b)	1,145,849,313	75,943,375	1,107,809,481	80,381,670

1,221,792,688

1,188,191,151

c) Analysis by related party

in thousands of tolar	31.12.2005	31.12.2004
Subsidiaries	3,936,403	9,829,248
Associated and jointly controlled companies	2,612,588	1,483,708
Other companies	28,256,181	36,497,238
Others	1,186,987,516	1,140,380,957
TOTAL	1,221,792,688	1,188,191,151

d) Analysis of movements

in thousands of tolar	2005	2004
Balance at 1 January	1,188,191,151	1,120,183,949
Increase:		
• new borrowings and deposits	22,590,889,608	20,549,346,984
• exchange differences	6,391,549	1,319,025
• interest added to principal	15,284,404	19,062,468
Decrease:		
• repayments	(22,578,964,024)	(20,501,721,275)
Balance at 31 December	1,221,792,688	1,188,191,151

30.
→ Debt securities**a) Maturity analysis**

in thousands of tolar	31.12.2005	31.12.2004
Short-term liabilities		
• in tolar	2,053	7,336,179
• in foreign currency	37,627	61,587
Long-term liabilities		
• in tolar	84,388,242	64,628,484
Current portion of long-term liabilities		
• in tolar	15,499,716	23,441,356
TOTAL	99,927,638	95,467,606

A detailed maturity analysis of bonds is given in Note 43 - Balance sheet maturity analysis.

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

in thousands of tolar	31.12.2005	31.12.2004
Subsidiaries	6,868,919	239,743
Associated companies	5,947,443	2,058,972
Other investments	5,622,610	21,833,758
Other customers	81,488,666	71,335,133
TOTAL	99,927,638	95,467,606

31.
→ Other liabilities**Analysis by type of liability**

in thousands of tolar	31.12.2005	31.12.2004
Suppliers	4,386,262	4,424,185
Liabilities to traders for credit cards	3,999,161	4,388,673
Derivative financial instruments	2,403,231	3,505,548
Items in the course of payment	1,807,918	646,225
Accrued salaries	1,770,343	1,582,427
Accrued interest due	1,112,922	949,030
Taxes payable	694,932	2,592,033
Liabilities for received cash in foreign currency	612,679	222,738
Fees and commissions due	255,089	70,833
Payments received in advance	26,648	17,030
Net liabilities from funds managed on behalf of third parties	13,710	37,994
Other liabilities	708,969	817,306
TOTAL	17,791,864	19,254,022

32.
→ Accruals and deferred income

in thousands of tolar	31.12.2005	31.12.2004
Accrued interest not yet due	9,466,317	8,182,461
Items in course of collections	2,053,028	412,922
Accrued expenses	493,781	533,860
Deferred income	372,944	397,153
TOTAL	12,386,070	9,526,396

Receivables in the course of collection are temporary balances, which are according to the functionality of the information support system transferred to appropriate item of other liabilities within next few days after the occurrence.

33.
→ Provisions for
liabilities and charges

a) Analysis by type of provision

in thousands of tolar	31.12.2005	31.12.2004
Provisions for A graded balance sheet and off-balance sheet assets	16,245,764	13,425,093
Provisions for other off-balance sheet assets	8,057,577	9,787,698
Provisions for country risk	13,145,850	9,897,706
Provisions for other foreseeable risks	2,507,953	2,508,552
Negative goodwill	160,935	375,514
Other provisions (note 11)	1,677,274	782,922
TOTAL	41,795,353	36,777,485

b) Analysis of movements

in thousands of tolar	Balance at 1 January 2005	Provisions made	Provisions released	Provisions utilized	Balance at 31 December 2005
Provisions for A graded balance sheet and off-balance sheet assets	13,425,093	12,131,117	(9,310,446)	-	16,245,764
Provisions for other off-balance sheet assets	9,787,698	12,447,162	(14,177,283)	-	8,057,577
Provisions for country risk	9,897,706	14,164,080	(10,915,936)	-	13,145,850
Negative goodwill	375,514	-	(214,579)	-	160,935
Provisions for other foreseeable risks	2,508,552	-	-	(599)	2,507,953
Other provisions	782,922	1,634,180	(288,808)	(451,020)	1,677,274
TOTAL	36,777,485	40,376,539	(34,907,052)	(451,619)	41,795,353

34.
→ Provisions for general
banking risks

in thousands of tolar	2005	2004
Balance at 1 January	5,989,370	3,839,370
Provisions made	-	2,150,000
Balance at 31 December	5,989,370	5,989,370

35.
→ Subordinated liabilities

in thousands of tolar	Currency	Due date	Interest rate	31.12.2005	31.12.2004
Subordinated loans	EUR	24.07.2012	EURIBOR + 1.2% to 24.7.2007, after that EURIBOR + 1.5%	21,561,804	21,576,870
Subordinated securities	Tolars	09.06.2013	7.0 %	11,618,121	11,602,615
	In tolar with foreign currency clause	24.11.2008	EUR + 5.0 %	4,061,538	4,060,493
	EUR	02.06.2014	3 months EURIBOR + 1.25%	11,978,780	11,987,150
	EUR	after 17.12.2014	3 months EURIBOR + 1.6%	23,957,560	23,974,300
	EUR	15.07.2015	6 months EURIBOR + 1.7%	31,144,828	-
TOTAL				104,322,631	73,201,428

In accordance with the Regulation on capital adequacy of banks and savings banks, one subordinated long-term loan and issued subordinate securities are included in the Bank's Tier 2 capital. The issued subordinate securities do not contain any provisions on conversion to capital or any other liabilities.

In the year 2005 NLB issued an innovative instrument in the form of bonds in the total amount of 130 million Euro. Bonds are quoted at Luxembourg stock exchange and were issued for capital adequacy purposes. Characteristics of the innovative instrument are compliant with the Regulation on capital adequacy of banks and savings banks. Main characteristics are:

- Instrument is perpetual.
- The Bank has the right to redeem bonds after 10 years from the date of their issuance with prior approval of the Bank of Slovenia.
- Interest is paid semi-annual.
- Payments from this instrument are non cumulative.
- They are able to absorb losses on a going-concern basis.
- They are subordinated to depositors, general creditors and subordinated debt instruments, which means that in the case of the bank's bankruptcy these instruments rank just above non - cumulative preference shares.
- They are permanent, i.e. they cannot be withdrawn at the bearer's request and do not have an explicit or indicated maturity.
- They are neither secured nor covered by a guarantee of the issuing bank or related entity or any other form of arrangement that legally or economically enhances the seniority of the claim.
- The withdrawal or redemption of the instruments by the issuing bank or the acceptance of the instrument as collateral for a claim is first possible only after a minimum of five years after issue and with the prior approval of the Bank of Slovenia. A condition for approval is that the bank will replace the instruments with another form of capital of the same or better quality, unless the Bank of Slovenia determines that even without the innovative instruments the capital is more than adequate to the risk assumed by the bank and its commercial strategy. From the day it is withdrawn, redeemed or accepted as collateral an innovative instrument no longer meets the conditions for inclusion in the calculation of the own funds.
- Proceeds must be immediately and unconditionally available to the issuing bank.
- In the event the bank has no distributable profit, the bank must have discretion of not paying out returns on innovative instruments and bank must have full access to waived payments.
- Distributions can only be paid out of distributable items. Where the distributions are preset, they may not be reset based on the credit rating of the issuing bank.

36.
→ Subscribed capital

a) Analysis of subscribed capital by type of shareholder

in thousands of tolar	31.12.2005	31.12.2004
Enterprises	1,293,652	1,255,618
Government departments and agencies	6,251,168	6,251,896
Banks	6,107,912	6,074,742
Other financial organizations	1,613,776	1,673,542
Citizens	97,522	108,232
TOTAL	15,364,030	15,364,030

As at 31 December 2005 7,682,015 ordinary shares represented the capital of the Bank, each with a nominal value of tolar 2,000. Shares are issued in non-material form and registered in the Central Securities Clearing Corporation. All shares are ordinary and inscribed.

At 31 December 2005 there were 906 shareholders. The Bank's shareholders are 260 corporate entities, 640 citizens and 6 non - residents. The number of shareholders increased in comparison to last year by 5 persons.

According to the decision of the Assembly in the year 2005 the Bank paid a dividend for the year 2004 of tolar 358 per share amounting to tolar 2,752,293 thousand.

Basic earnings per share at 31 December 2005 amounted to tolar 1,514 (tolars 896 as at 31 December 2004). The weighted average number of ordinary shares outstanding during the year ended 31 December 2005 was 7,682,015 (tolars 7,682,015 as at 31 December 2004).

If the Bank maintained capital at the rate equal to the general price index in the year 2005, profit before tax would amount to tolar 12,262,750 thousand (tolars 10,038,866 thousand as at 31 December 2004). In the year 2005 the growth rate for euro was negative and consequently there would not be any adjustment of capital.

The bank issued in the year 2005 an innovative instrument that can be partially included in core capital and partially in additional capital for the purpose of capital adequacy.

b) Distributable net profit for the year 2005

In accordance with the decision of the supervisory Board net profit for the year 2005 in the amount of tolar 5,816,898 thousand was transferred to other profit reserves, while the retained earnings and remaining part of net profit for the year 2005 in the amount of tolar 5,816,966 thousand represent distributable net profit for the year 2005.

37.
→ Off-balance sheet

a) Analysis by types of contingent liabilities and commitments

in thousands of tolar	31.12.2005		31.12.2004	
	Tolar	Foreign currency	Tolar	Foreign currency
Short-term guarantees				
• financial	13,551,363	14,209,721	26,356,546	9,704,064
• service	18,371,485	6,168,238	12,027,103	5,373,641
Long-term guarantees				
• financial	24,230,242	105,930,780	21,693,172	98,095,874
• service	39,621,202	15,274,044	37,343,713	8,088,990
Commitments to extend credit	171,678,733	49,676,232	159,771,495	44,690,337
Letters of credit	-	5,070,630	-	4,472,486
Guaranteed and accepted bills	-	5,858,330	-	6,284,123
Other	2,139,826	-	1,463,066	-
Derivative financial instruments	523,944	5,215,227	997,229	2,151,628
	270,116,795	207,403,202	259,652,324	178,861,143
Provisions	(3,985,905)	(4,071,672)	(5,766,899)	(4,020,799)
TOTAL	266,130,890	203,331,530	253,885,425	174,840,344

According to the Bank of Slovenia's methodology the total off-balance sheet items amounted to tolar 985,346,926 thousand (tolars 747,661,027 thousand as at 31 December 2004). 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 tolar 477,519,997 thousand (tolars 438,513,467 thousand as at 31 December 2004). The difference to the total off balance sheet items of the Bank consists of transactions or items that are treated as riskless contingent liabilities such as currency spot transactions and difference between contractual and replaceable value of derivatives.

b) Analysis of derivative financial instruments

in thousands of tolar	31.12.2005		31.12.2004	
	Short-term	Long-term	Short-term	Long-term
Swaps with Bank of Slovenia	147,335,016	-	166,623,771	-
Other swaps	105,920,825	135,389,552	41,427,177	49,408,644
Options	45,195,141	25,268,425	9,627,025	7,653,969
Forward contracts	29,630,320	873,767	19,962,661	3,297,249
Futures	1,840,268	-	477,338	-
Forward contracts to buy or sell securities	2,100,172	3,468,344	3,566,658	2,563,497
	332,021,742	165,000,088	241,684,630	62,923,359
	497,021,830		304,607,989	

Certain derivative financial instruments, which provide 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.

Financial statements of the Bank for the year 2005 include provisions for financial derivative instruments in the amount of tolar 52,277 thousand (tolars 37,275 thousand as at 31 December 2004).

c) Assets pledged

in thousands of tolar	Pledged assets		Liabilities	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Other bonds in foreign currency	30,578,089	-	31,156,402	-
TOTAL	30,578,089	-	31,156,402	-

38.
→ Funds managed on behalf of third parties

The Bank manages assets totaling tolar 469,586,385 thousand (tolars 286,137,422 thousand as at 31 December 2004) 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.

39.
→ Foreign branches

The Bank has a branch in Trieste, which total assets amounted to tolar 41,635,237 thousand as of 31 December 2005 (tolars 38,418,434 thousand as at 31 December 2004) and net profit according to Italian legislation for the year 2005 tolar 2,439 thousand (tolars 2,775 thousand as at year 2004).

40.
→ Related party transactions

in thousands of tolar	Balance at 31 December 2005	Balance at 31 December 2004	Interest rate	Repayments in the year 2005
Loans and advances to				
• Management board members	48,406	49,872	TOM + 1.3 %	5,368
• Supervisory board members	2,502	6,201		6,699
• Other key managers	463,650	292,603	TOM + 1.3 %	81,258
• Shareholders	93,784,349	80,568,760		
Deposits to				
• Shareholders	2,431,308	534,814		
Securities				
• Shareholders	183,701,558	184,266,101		
Deposits from				
• Management board members	48,435	33,097		
• Supervisory board members	-	8,619		
• Other key managers	378,518	399,601		
• Shareholders	94,637,134	70,396,366		
Loans received from				
• Shareholders	6,968,248	2,959,491		
Debt securities				
• Shareholders	34,314,680	37,147,586		
Subordinate loans received from:				
• Shareholders	27,142,509	26,803,391		
	Year 2005	Year 2004		
Receipts				
• Management board members	396,145	368,012		
• Supervisory board members	6,363	3,400		
• Other key managers	1,992,791	1,828,578		

Receipts include gross salaries, remunerations, vacation bonus, management insurance, jubilee bonuses and additional pension insurance.

41.
→ Fair value of
financial instruments

in thousands of tolar	31.12.2005		31.12.2004	
	Carrying value	Fair value	Carrying value	Fair value
Placements with, and loans to, other banks	217,950,292	220,106,237	189,875,786	193,463,929
Loans and advances to customers	1,140,207,498	1,205,763,392	900,389,684	919,127,908
Investment securities, available for sale	449,966,490	451,945,964	424,369,527	427,468,472
Investment securities, held to maturity	9,149,601	9,086,194	29,684,778	29,684,167
Investments in capital	84,485,220	84,485,220	51,131,648	51,131,648
Securities held for trading	172,235,602	175,338,123	132,716,261	138,370,679
Derivative financial instruments - other assets	824,054	2,218,502	1,252,426	1,884,506
Deposits from banks	117,035,250	116,138,522	85,201,646	83,606,516
Borrowing from banks	479,740,145	479,613,744	230,065,131	227,015,758
Deposits from other customers	1,197,291,655	1,165,891,190	1,153,471,809	1,123,513,993
Borrowing from other customers	24,501,033	24,098,636	34,719,342	34,492,504
Debt securities	99,927,638	103,359,578	95,467,606	98,234,879
Subordinated liabilities	104,322,631	105,824,753	73,201,428	75,061,081
Derivative financial instruments - other liabilities	2,403,231	2,403,231	3,505,548	3,505,548

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

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.

Debt securities held to maturity

The fair value of other securities held to maturity is based on their quoted market price or calculated by using discounted cash flows techniques.

Deposits

The fair value to the depository institution of a demand deposits 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 debts with similar remaining maturity.

42.
→ Segmental analysis

Year 2005 in thousands of tolar	Retail network	Corporate business	Financial markets	Other (unallocated)	The Bank
Net interest income	27,726,073	8,765,500	(2,124,688)	3,779,942	38,146,827
Income from investing in capital	1,590,177	848,094	7,322,537	1,060,068	10,820,876
Net fees and commissions	19,467,100	3,567,503	75,590	(170,212)	22,939,981
Net profit (loss) from finance transactions	1,271,317	(142,066)	2,545,239	(362,407)	3,312,083
Other operating income	2,121,471	27,779	26,368	1,227,859	3,403,477
Employee costs	(19,400,416)	(3,181,953)	(2,476,942)	(141,866)	(25,201,177)
Costs of material and services	(11,489,712)	(1,598,799)	(1,451,943)	(937,725)	(15,478,179)
Depreciation, amortization and revaluation expenses	(5,888,476)	(896,212)	(723,054)	(2,899,964)	(10,407,706)
Other operating expenses	(1,063,416)	(19,159)	(1,907)	(1,683,505)	(2,767,987)
Losses on loans and advances less recoveries	(4,243,100)	(2,736,176)	(2,472,170)	(363,224)	(9,814,670)
Extraordinary income/expenses	15,693	(604)	(192)	52,145	67,042
Segment result	10,106,711	4,633,907	718,838	(438,889)	15,020,567
Income/(expenses) made between segments	20,105,104	(4,950,022)	(18,022,575)	2,867,493	-
PROFIT BEFORE TAX					15,020,567
Taxes					(3,386,770)
NET PROFIT FOR THE YEAR					11,633,797
Total assets	414,555,499	810,669,268	788,887,459	217,188,803	2,231,301,029
Total liabilities	1,034,472,978	111,801,949	905,765,535	48,740,547	2,100,781,009
Equity	-	-	-	130,520,020	130,520,020

The Bank's organizational structure is based on 3 major business segments:

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.

Year 2004 in thousands of tolar	Retail network	Corporate business	Financial markets	Other (unallocated)	The Bank
Net interest income	25,622,728	8,231,427	(1,148,784)	5,222,318	37,927,689
Income from investing in capital	1,128,447	602,174	6,605,470	752,871	9,088,962
Net fees and commissions	16,868,877	3,698,070	211,618	271,701	21,050,266
Net profit (loss) from finance transactions	1,404,143	(29,413)	5,900,972	(259,420)	7,016,282
Other operating income	1,686,795	14,573	32,882	949,178	2,683,428
Employee costs	(19,611,310)	(2,879,304)	(2,711,733)	(82,660)	(25,285,007)
Costs of material and services	(11,729,246)	(1,445,699)	(1,583,798)	(204,329)	(14,963,072)
Depreciation, amortization and revaluation expenses	(6,027,115)	(766,651)	(737,924)	(135,914)	(7,667,604)
Other operating expenses	(44,786)	(12,480)	(4,138)	(1,841,061)	(1,902,465)
Losses on loans and advances less recoveries	(3,186,523)	(5,909,902)	(2,895,239)	(80,806)	(12,072,470)
Extraordinary income/expenses	7,122	2	(127)	56,895	63,892
Segment result	6,119,132	1,502,797	3,669,199	4,648,773	15,939,901
Income/(expenses) made between segments	22,017,075	(9,639,087)	(18,447,218)	6,069,230	-
Provisions for general banking risks					(2,150,000)
PROFIT BEFORE TAX					13,789,901
Taxes					(6,909,164)
NET PROFIT FOR THE YEAR					6,880,737
Total assets	343,508,605	629,154,802	782,191,423	109,916,969	1,864,771,799
Total liabilities	986,266,704	111,474,728	608,766,136	37,166,667	1,743,674,235
Equity	-	-	-	121,097,564	121,097,564

43.
→ Balance sheet
maturity analysis

Year ended 31 December 2005:

in thousands of tolar	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	67,091,672	-	-	-	-	67,091,672
Placements with, and loans to, other banks	42,207,014	13,941,568	25,948,974	126,581,867	9,270,869	217,950,292
Loans and advances to customers	41,490,993	131,100,236	321,578,677	403,802,767	242,234,825	1,140,207,498
Debt securities not held for trading	101,629,976	168,096,145	12,991,686	96,594,156	79,804,128	459,116,091
Securities held for trading	170,619,049	-	1,616,553	-	-	172,235,602
Investments in subsidiaries, associated companies and jointly controlled companies	-	-	-	-	83,868,065	83,868,065
Investments in other companies	-	-	-	-	617,155	617,155
Intangible assets	-	-	-	3,955,489	14,170,706	18,126,195
Property and equipment	-	-	-	8,271,183	27,221,573	35,492,756
Other assets	20,053,515	-	3,074,270	377,724	-	23,505,509
Accrued income and deferred expenses	1,354,126	2,133,831	9,602,237	-	-	13,090,194
TOTAL ASSETS	444,446,345	315,271,780	374,812,397	639,583,186	457,187,321	2,231,301,029
Deposits and borrowings from banks	97,264,232	48,339,899	109,983,201	320,524,358	20,663,705	596,775,395
Deposits and borrowings from other customers	678,543,543	189,043,841	278,261,929	70,234,090	5,709,285	1,221,792,688
Debt securities	50,991	7,174	15,481,231	36,248,886	48,139,356	99,927,638
Other liabilities	15,320,390	31,071	2,440,403	-	-	17,791,864
Accruals and deferred income	3,335,668	1,577,720	7,129,248	343,434	-	12,386,070
Provisions for liabilities and charges	3,120,398	2,188,243	5,682,791	24,076,459	6,727,462	41,795,353
Provisions for general banking risks	-	-	-	-	5,989,370	5,989,370
Subordinated liabilities	-	-	-	4,061,538	100,261,093	104,322,631
Subscribed capital	-	-	-	-	15,364,030	15,364,030
Equity reserves	-	-	-	-	13,603,399	13,603,399
Profit reserves	-	-	-	-	77,319,000	77,319,000
Capital revaluation adjustment	-	-	-	-	18,416,625	18,416,625
Retained profits	-	-	-	-	67	67
Net profit for the period	-	-	-	-	5,816,899	5,816,899
TOTAL LIABILITIES	797,635,222	241,187,948	418,978,803	455,488,765	318,010,291	2,231,301,029
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	(353,188,877)	74,083,832	(44,166,406)	184,094,421	139,177,030	-
31.12.2004						
TOTAL ASSETS	387,998,695	261,306,374	338,358,404	548,396,869	328,711,457	1,864,771,799
TOTAL LIABILITIES	597,841,930	330,947,699	372,131,719	324,215,238	239,635,213	1,864,771,799
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	(209,843,235)	(69,641,325)	(33,773,315)	224,181,631	89,076,244	-

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44.
→ Balance sheet
analysis by currency

Year ended 31 December 2005:

in thousands of tolar	Tolars	In Tolars with foreign currency clause	EUR	USD	Other	Total
Cash and balances with the Central Bank	60,271,736	-	4,589,516	692,034	1,538,386	67,091,672
Placements with, and loans to, other banks	93,289,788	-	103,370,613	17,790,573	3,499,318	217,950,292
Loans and advances to customers	458,059,027	11,448,328	619,700,501	29,114,427	21,885,215	1,140,207,498
Debt securities not held for trading	275,991,537	738,085	168,380,948	11,850,727	2,154,794	459,116,091
Securities held for trading	114,826,124	3,955,256	30,848,792	19,048,153	3,557,277	172,235,602
Investments in subsidiaries, associated companies and jointly controlled companies	36,073,481	-	14,259,524	-	33,535,060	83,868,065
Investments in other companies	450,090	-	167,065	-	-	617,155
Intangible assets	18,078,055	11,790	36,350	-	-	18,126,195
Property and equipment	35,445,131	-	47,625	-	-	35,492,756
Other assets	16,492,137	22,278	4,330,645	1,170,009	1,490,440	23,505,509
Accrued income and deferred expenses	11,043,065	74,533	1,752,768	214,988	4,840	13,090,194
TOTAL ASSETS	1,120,020,171	16,250,270	947,484,347	79,880,911	67,665,330	2,231,301,029
Deposits and borrowings from banks	12,839,929	-	548,022,751	31,159,640	4,753,075	596,775,395
Deposits and borrowings from other customers	793,510,962	3,390,005	366,562,931	41,232,729	17,096,061	1,221,792,688
Debt securities	90,172,808	9,717,203	23,656	13,971	-	99,927,638
Other liabilities	13,224,243	-	3,291,343	1,163,813	112,465	17,791,864
Accruals and deferred income	6,336,315	161,130	5,067,627	782,871	38,127	12,386,070
Provisions for liabilities and charges	15,803,898	274,640	20,807,935	1,991,077	2,917,803	41,795,353
Provisions for general banking risks	5,989,370	-	-	-	-	5,989,370
Subordinated liabilities	11,618,121	4,061,538	88,642,972	-	-	104,322,631
Subscribed capital	15,364,030	-	-	-	-	15,364,030
Equity reserves	13,603,399	-	-	-	-	13,603,399
Profit reserves	77,319,000	-	-	-	-	77,319,000
Capital revaluation adjustment	18,416,625	-	-	-	-	18,416,625
Retained profits	67	-	-	-	-	67
Net profit for the period	5,816,899	-	-	-	-	5,816,899
TOTAL LIABILITIES	1,080,015,666	17,604,516	1,032,419,215	76,344,101	24,917,531	2,231,301,029
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	40,004,505	(1,354,246)	(84,934,868)	3,536,810	42,747,799	-
Derivative financial instruments	(121,438,854)	-	141,847,112	(8,050,372)	(11,656,025)	701,861
31.12.2004						
TOTAL ASSETS	1,081,432,566	18,464,978	60,565,652	672,070,996	32,237,607	1,864,771,799
TOTAL LIABILITIES	1,044,786,209	23,227,470	62,017,176	711,559,861	23,181,083	1,864,771,799
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	36,646,357	(4,762,492)	(1,451,524)	(39,488,865)	9,056,524	-
Derivative financial instruments	(94,925,363)	-	106,323,046	(5,494,443)	(6,753,964)	(850,724)

45.
→ Balance sheet analysis
by interest rate

The interest rate risk exposure analysis of the bank's balance sheet as at 31 December 2005:

in thousands of tolar	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	67,091,672	18,269,348	48,822,324	48,822,324	-	-	-
Placement with, and loans to, other banks	217,950,292	-	217,950,292	141,275,427	34,582,235	40,790,142	1,302,488
Loans and advances to customers	1,140,207,498	-	1,140,207,498	426,325,228	248,560,203	243,809,486	221,512,581
Debt securities not held for trading	459,116,091	-	459,116,091	183,836,103	169,433,586	6,659,348	99,187,054
Securities held for trading	172,235,602	22,987,977	149,247,625	148,590,085	-	657,540	-
Investments in subsidiaries, associated companies and jointly controlled companies	83,868,065	83,868,065	-	-	-	-	-
Investments in other companies	617,155	617,155	-	-	-	-	-
Intangible assets	18,126,195	18,126,195	-	-	-	-	-
Property and equipment	35,492,756	35,492,756	-	-	-	-	-
Other assets	23,505,509	23,296,692	208,817	208,817	-	-	-
Accrues income and deferred expenses	13,090,194	13,090,194	-	-	-	-	-
TOTAL ASSETS	2,231,301,029	215,748,382	2,015,552,647	949,057,984	452,576,024	291,916,516	322,002,123
LIABILITIES							
Deposits and borrowings from banks	596,775,395	-	596,775,395	105,142,185	322,871,085	167,485,079	1,277,046
Deposits and borrowings from other customers	1,221,792,688	-	1,221,792,688	973,407,673	144,524,915	94,843,582	9,016,518
Debt securities	99,927,638	-	99,927,638	23,393,737	7,971	10,883,326	65,642,604
Other liabilities	17,791,864	17,791,864	-	-	-	-	-
Accruals and deferred income	12,386,070	12,386,070	-	-	-	-	-
Provisions for liabilities and charges	41,795,353	41,795,353	-	-	-	-	-
Provisions for general banking risks	5,989,370	5,989,370	-	-	-	-	-
Subordinated liabilities	104,322,631	-	104,322,631	-	66,999,844	21,535,664	15,787,123
Subscribed capital	15,364,030	15,364,030	-	-	-	-	-
Equity reserves	13,603,399	13,603,399	-	-	-	-	-
Profit reserves	77,319,000	77,319,000	-	-	-	-	-
Capital revaluation adjustment	18,416,625	18,416,625	-	-	-	-	-
Retained profits	67	67	-	-	-	-	-
Net profit for the period	5,816,899	5,816,899	-	-	-	-	-
TOTAL LIABILITIES	2,231,301,029	208,482,677	2,022,818,352	1,101,943,595	534,403,815	294,747,651	91,723,291
DIFFERENCE BETWEEN ASSETS AND LIABILITIES				(152,885,611)	(81,827,791)	(2,831,135)	230,278,832
31.12.2004							
TOTAL ASSETS				1,689,302,372	882,333,751	378,352,993	245,606,839
TOTAL LIABILITIES				1,672,126,962	1,049,358,243	241,870,802	314,913,866
DIFFERENCE BETWEEN ASSETS AND LIABILITIES				17,175,410	(167,024,492)	136,482,191	(69,307,027)

46.
→ Effective
interest rates

%	2005		2004	
	In tolar	In Foreign currency	In tolar	In Foreign currency
AKTIVA				
Cash and balances with the Central Bank	0.67	-	0.68	-
Placements with, and loans to, other banks	4.30	3.30	4.17	2.87
Loans and advances to customers	7.35	3.68	8.35	3.59
Debt securities not held for trading	5.30	2.19	6.91	2.04
Securities held for trading	4.31	2.65	5.01	2.85
Other assets	3.83	-	0.86	-
TOTAL ASSETS	5.66	3.18	6.63	2.96
PASIVA				
Deposits from banks	3.34	1.31	4.28	1.53
Borrowings from banks	4.16	2.59	4.81	2.56
Deposits from other customers	2.41	1.16	3.29	0.86
Borrowings from other customers	3.59	2.58	5.72	2.56
Debt securities	5.80	1.45	7.25	1.72
Other liabilities	1.08	-	0.35	-
Subordinated liabilities	6.64	3.65	7.01	3.68
TOTAL LIABILITIES	2.49	1.85	3.26	1.52

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.

2_b

Financial Statements

International Financial Reporting Standards

Audited Consolidated Financial
Statements for NLB Group

under International Financial Reporting Standards



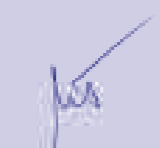
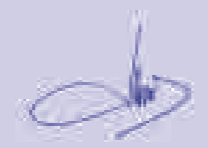


Statement of management's responsibilities

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 2005. 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

					
Erik Luts Member of the 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	Marjan Kramar President of the Management Board & CEO

Report of the auditors

To the Shareholders and Board of Directors of the Nova Ljubljanska banka d.d., Ljubljana

We have audited the accompanying consolidated balance sheet of Nova Ljubljanska banka d.d., Ljubljana and its subsidiaries (the 'Group') as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company'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. 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 management, 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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005, and of the results of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



PricewaterhouseCoopers d.o.o.

PRICEWATERHOUSECOOPERS d.o.o.

Ljubljana, 28 April 2006

→ Consolidated income
statement

In millions of tolar	Notes	2005	2004
Interest and similar income	6	134,290	124,824
Interest expense and similar charges	6	(56,770)	(54,512)
NET INTEREST INCOME		77,520	70,312
Fees and commissions income	7	35,195	30,439
Fees and commissions expense	7	(7,427)	(6,580)
NET FEES AND COMMISSIONS		27,768	23,859
Gains arising from securities held for trading (net)		1,950	5,691
Gains arising from investment securities (net)		2,396	1,480
Gains arising from dealing in foreign currencies (net)		2,884	2,549
Losses arising from derivatives (net)		(2,420)	(1,124)
Foreign exchange gains (net)		2,103	2,427
Other operating income	8	6,558	6,962
OPERATING INCOME		118,759	112,156
Impairment losses	9	(13,977)	(18,519)
General administrative expenses	10	(64,049)	(58,699)
Other operating expenses	11	(16,303)	(14,371)
PROFIT FROM OPERATIONS		24,430	20,567
Share of profits of associated companies and joint ventures	21	820	1,590
PROFIT BEFORE TAX		25,250	22,157
Income tax expense	12	(5,454)	(5,837)
PROFIT FOR THE YEAR		19,796	16,320
Attributable to:			
Equity holders of the NLB Group		16,973	13,643
Minority interest		2,823	2,677
		19,796	16,320
Basic and diluted earnings per share (expressed in tolar per share)	13	2,209	1,776

The accompanying notes form an integral part of these consolidated financial statements.

→ Consolidated
balance sheet

In millions of tolar	Notes	31.12.2005	31.12.2004
ASSETS			
Cash and balances with the Central Bank	14	131,038	75,372
Placements with, and loans to banks	15	223,543	170,913
Securities at fair value through profit or loss	16	171,337	135,190
Derivatives	17	2,103	1,786
Loans and advances to customers	18	1,658,182	1,274,790
Investment securities	19	589,378	604,604
Pledged assets		29,850	432
Investment property	20	6,091	4,046
Investments in associated companies and joint ventures	21	14,071	13,632
Current income tax assets		1,095	166
Deferred tax assets	23	550	102
Other assets	22	17,973	14,516
Accrued income and deferred expenses	24	17,095	15,077
Property and equipment	25	69,340	60,449
Intangible assets	26	32,796	18,703
Non-current assets held for sale	27	2,338	-
TOTAL ASSETS		2,966,780	2,389,778
LIABILITIES			
Deposits from banks	28	166,533	121,151
Borrowings from banks	29	656,800	362,442
Deposits from other customers	30	1,573,462	1,389,735
Borrowings from other customers	31	87,191	83,738
Derivatives	17	2,361	3,486
Debt securities	32	91,601	93,919
Current income tax liabilities		773	2,147
Deferred tax liabilities	23	10,477	12,450
Other liabilities	33	27,333	23,497
Accruals and deferred income	34	14,287	12,063
Provisions for liabilities and charges	35	20,911	16,860
Subordinated liabilities	36	103,715	72,990
TOTAL LIABILITIES		2,755,444	2,194,478
SHAREHOLDERS' EQUITY			
Share capital	38	15,364	15,364
Share premium		12,546	12,546
Less: treasury shares		(69)	(69)
Retained earnings		135,806	120,699
Reserves	39	18,016	19,630
		181,663	168,170
Minority interest		29,673	27,130
TOTAL SHAREHOLDERS' EQUITY		211,336	195,300
TOTAL EQUITY AND LIABILITIES		2,966,780	2,389,778

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.

Erik Luts Member of the 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
Marjan Kramar President of the Management Board & CEO

Ljubljana, 28 April 2006

→ Consolidated statement
of changes in equity

In millions of tolar	Note	Attributable to equity holders of the Company						
		Share capital	Reserves	Share Premium	Retained Earnings	Total Equity	Minority interest	Total equity
Balance at 1 January 2004		15,364	30,750	12,477	94,481	153,072	28,016	181,088
Property, plant and equipment revaluation		-	(19,308)	-	19,131	(177)	-	(177)
Adoption of revised IAS 39	2.30, 39	-	5,242	-	(2,145)	3,097	1	3,098
Balance at 1 January 2004 - restated		15,364	16,684	12,477	111,467	155,992	28,017	184,009
Foreign exchange difference on opening net assets		-	-	-	23	23	(360)	(337)
Net change in available for sale, net of tax		-	418	-	-	418	22	440
Net gains not recognised in income statement		-	418	-	-	418	22	440
Profit for the year		-	-	-	13,643	13,643	2,677	16,320
Total recognised income for 2004		-	418	-	13,643	14,061	2,699	16,760
Dividends paid		-	-	-	(2,187)	(2,187)	(975)	(3,162)
Transfer to general banking reserve		-	2,528	-	(2,528)	-	-	-
Other		-	-	-	281	281	-	281
Additional share of subsidiaries acquired		-	-	-	-	-	(2,251)	(2,251)
Balance at 31 December 2004		15,364	19,630	12,477	120,699	168,170	27,130	195,300
Balance at 1 January 2005		15,364	19,630	12,477	120,699	168,170	27,130	195,300
Adoption of revised IFRS 3	2.30	-	-	-	871	871	-	871
• attributable to equity holders		-	-	-	962	962	-	962
• minority interest		-	-	-	(91)	(91)	-	(91)
Foreign exchange difference on opening net assets		-	-	-	(60)	(60)	(62)	(122)
Net change in available for sale, net of tax		-	(1,690)	-	-	(1,690)	287	(1,403)
Net gains not recognised in income statement		-	(1,690)	-	-	(1,690)	287	(1,403)
Profit for the year		-	-	-	16,973	16,973	2,823	19,796
Total recognised income for 2005		-	(1,690)	-	16,973	15,283	3,110	18,393
Dividends paid		-	-	-	(2,740)	(2,740)	(859)	(3,599)
Transfer to general banking reserve		-	(20)	-	20	-	-	-
Other		-	96	-	43	139	96	235
Acquisition of new subsidiaries		-	-	-	-	-	1,467	1,467
Additional share of subsidiaries acquired		-	-	-	-	-	(1,209)	(1,209)
Balance at 31 December 2005		15,364	18,016	12,477	135,806	181,663	29,673	211,336

The accompanying notes form an integral part of these consolidated financial statements.

→ Consolidated cash flow
statement

In millions of tolar	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and commission receipts	162,560	153,034
Interest and commission payments	(61,082)	(69,417)
Dividend receipts	615	413
Recoveries on loans previously written off	683	554
Cash payments to employees and suppliers	(59,981)	(58,530)
Trading gains	2,147	15,286
Other income	5,096	4,694
Other expense	(1,728)	(828)
Taxation paid	(8,692)	(6,027)
Cash flows from operating profit before changes in operating assets and liabilities	39,618	39,179
(Increase)/decrease in operating assets:		
Balances with the Central Bank	1,395	(6,626)
Placements with, and loans to, other banks	(26,009)	74,626
Loans and advances to customers	(323,861)	(222,493)
Trading securities	1,393	(2,348)
Other assets	(5,637)	(9,231)
Increase/(decrease) in operating liabilities:		
Deposits from banks	46,730	(28,900)
Deposits from other customers	64,854	109,467
Other liabilities	(551)	2,097
NET CASH FROM OPERATING ACTIVITIES	(202,068)	(44,229)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments securities	143,738	36,899
Purchase of investment securities	(136,805)	(46,142)
Proceeds from sales of property, equipment and intangibles	3,432	282
Purchase of property, equipment and intangibles	(9,904)	(11,656)
Acquisition of subsidiary undertaking	(1,034)	(2,513)
NET CASH FROM INVESTING ACTIVITIES	(573)	(23,130)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	906,938	902,237
Decrease in borrowings	(616,751)	(801,834)
Subordinated debt received	31,546	21,577
Dividends paid	(3,599)	(3,163)
NET CASH FROM FINANCING ACTIVITIES	318,134	118,817
Effect of exchange rate changes on cash and cash equivalents	4,496	1,339
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,989	52,797
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	536,423	483,626
CASH AND CASH EQUIVALENTS AT END OF PERIOD	656,412	536,423

The accompanying notes form an integral part of these consolidated financial statements.

In millions of tolar	Notes	2005	2004
Cash and cash equivalents comprise:			
Cash and balances with the Central Bank	14	62,966	27,957
Placements with, and loans to banks maturing within 3 months		86,168	58,232
Securities held for trading maturing within 3 months		171,097	134,958
Investment securities maturing within 3 months		336,181	311,276
TOTAL		656,412	536,423

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Nova Ljubljanska banka ("The Bank" or "NLB") is incorporated in Slovenia as a joint stock company providing universal banking services. The largest shareholders of Nova Ljubljanska banka d.d. are the Republic of Slovenia, owing 35.41% of the shares, and KBC Bank N.V., Brussels ("KBC Bank") owing 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 2005 was 2.3% (2004: 3.2%). The exchange rate changed from 239.7 tolar to the euro at 31 December 2004 to 239.6 tolar to the euro at 31 December 2005, and from 176.2 tolar to the US dollar at 31 December 2004 to 202.4 tolar to the US dollar at 31 December 2005.

All amounts are expressed in million of tolar unless otherwise specified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the consolidated financial statements are set out below:

2.1 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

2.2 Basis of presentation of financial statements

The financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale investment securities, financial assets and financial liabilities at fair value through profit or loss, all derivative contracts and investment property.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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 as adopted by the EU.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.3 Consolidation

Subsidiary undertakings, which are those companies in which the Group, 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, except SIB banka. The SIB banka is in the process of liquidation and the major part of its assets and liabilities were transferred to NLB. 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. Disclosure of minority interest is made in consolidated statement of changes in equity.

A listing of the Group's subsidiaries is set out in note 45.

2.4 Associated undertakings

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

Equity method of 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.

A listing of the Group's principal associated undertakings is set out in Note 21.

2.5 Jointly controlled companies

Jointly controlled companies are those enterprises over whose activities the Group has joint control, established by contractual agreement. Investments in jointly controlled companies are accounted for using the equity method of accounting.

2.6 Goodwill and Excess of acquirer's interest

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. For additionally acquired shares in existing subsidiaries, the Bank uses the partial step up method and calculates the difference between the fair value of the assets and liabilities acquired and the fair value of consideration at the date of the latest share purchase, but only to the extent of the additional purchase. Where the consideration given exceeds the net assets acquired, goodwill arises. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Where the bank's share of identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition, a reassessment is made of the completeness of identification and measurement, and any remaining excess ("negative goodwill") is recognised immediately in profit.

2.7 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. Financial statements are presented in tolar, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available for sale, are included in the fair value reserve in equity.

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.

Group companies

The result and financial position of all the group entities that have functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expenses for each income statement are translated at average exchange rates
- all resulting exchange differences are recognized as a separate component of equity

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.8 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discounts and premium

on securities. The calculation of effective interest rate includes all fees and points paid or received between parties to the contract and all transaction costs. Once financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9 Fees and commission income

Fees and commission are generally recognised when the service has been provided. 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 guarantees.

Fees receivable that represent a return for services provided are credited to income when the related service is performed.

2.10 Financial assets

a) Classification

Financial assets at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading and financial instruments designated at fair value through profit or loss at inception. Financial instrument is classified in this group if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. All loans and advances are recognised when cash is advanced to borrowers.

Held-to-maturity

Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Available-for-sale

Available for sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial instruments at fair value through profit and loss, held to maturity and available for sale are recognised on trade date. Loans are recognised when cash is advanced to the borrowers. All

other purchases and sales are recognised as derivative forward transactions until settlement.

b) Measurement and Recognition

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss.

Financial assets at fair value through profit and loss and financial assets available for sale are subsequently measured at fair value. Gains and losses from changes in the fair value of the financial assets at fair value through profit and loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available for sale financial assets are recognised in equity, until the financial asset is derecognised or impaired at which time the effect previously included in equity is recognised in the income statement.

Loans and held to maturity financial assets are carried at amortised cost.

c) Derecognition of financial instruments

Financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and transfer qualifies for derecognition. Financial liability is derecognised only when it is extinguished - ie when the obligation specified in the contract is discharged or cancelled or expires.

d) 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.

e) Derivative financial instruments

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.

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 best evidence of the fair value of a derivative at initial recognition is the transaction price (ie, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day 1.

2.11 Impairment of financial assets

a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristic and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment.

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through

an allowance account and the amount of the loss is recognised in the income statement.

The calculation of present value of the estimated future cash flows of collateralised financial assets reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (on the basis of the Group's internal grading process that considers all relevant factors).

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology and assumptions used for estimating future cash flows are reviewed regularly.

If the amount of the impairment subsequently decreases due to an event occurring after the write down, the reversal of loss is credited as a reduction of an allowance for loan impairment.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

b) Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that financial assets available for sale are impaired. In the case of equity investment classified as available for sale, a significant or prolonged decline in the fair value of security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.12 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 to realise the asset and settle the liability simultaneously.

2.13 Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, with the counterparty liability included in deposits from banks or customers as appropriate. Securities sold subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. 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 over the life of the repo agreements using the effective interest rate method.

2.14 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 amount. Recoverable amount is the higher of net selling price and value in use. If value in use exceeds the carrying value, the assets are not impaired.

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

The following are approximations of the annual rates used:

	%		
Buildings	2	-	5
Leasehold improvements	20		
Computers	14.3	-	50
Furniture and equipment	10	-	33.3
Motor vehicles	12.5	-	25

Assets in the course of transfer or construction are not depreciated until they are brought into use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 during the financial period in which they are incurred.

2.15 Intangible assets

Intangible assets, which 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 the cost of software over its estimated useful life. The current system software and the new information technology system are amortised over a period of 10 years and other software over a period of 3 - 5 years.

Assets in the course of transfer or construction/ implementation are not amortised until they are brought into use.

2.16 Investment property

Investment property includes buildings held for rental yields and not occupied by the Group. 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. If there is a change in use due to the commencement of owner occupation investment property is transferred to owner occupied property.

2.17 Non - current assets held for sale

Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

2.18 Accounting for leases

• 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.

• a Group company is the lessor

When assets are leased out 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.

2.19 Cash and cash equivalents

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

2.20 Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction cost incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

If the Group purchases its own debt, it is removed from the balance sheet.

2.21 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.

2.22 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average cost formula. Inventories include cost of projects where the Group is an investor and property held for sale in the ordinary course of business.

2.23 Taxation

Income tax is calculated by each Group member according to local legislation. Tax on total assets was abolished in year 2005.

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. The principal temporary differences arise from the valuation of financial assets and liabilities including derivatives, valuation of investment property and provisions.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary can be utilised.

Deferred tax related to fair value re-measurement of available for sale investments is charged or credited directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.24 Fiduciary activities

The Group manages a significant amount of assets on behalf of legal entities and citizens. A fee is charged for this service. These assets are not shown in the consolidated balance sheet but details of the funds under management are given in note 43.

2.25 Employee benefits

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long - services benefits. Valuations of these obligations are carried out by independent qualified actuaries. The main actuarial assumptions included in the calculation of the obligation for other long - term employee benefits are:

- Discount rate of 2.75% and
- Future salary increases using general salary inflation index, promotions and increases in salaries according to past years of services.

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 Slovenian legislation. Once contributions have been paid, the Group has no further payment obligation. The regular contributions constitute net periodic costs for the year in which they are due and such are included in staff costs.

According to Slovenian legislation employees retire after 40 years of working life, when, if fulfilling certain conditions they are entitled to indemnity paid in lump sum. Employees are also entitled to long services bonus for every ten years of employment with the Bank. These obligations are measured at the present value of the future cash outflows. All gains and losses are recognised in the income statement.

2.26 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Treasury shares

Where the Bank or other member of the consolidated Group purchases the Bank's shares, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

2.27 Comparatives

Where necessary, comparative figures have been adjusted to confirm with changes in presentation in the current year (see note 16 and 19).

2.28 Segmental reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

2.29 Critical accounting estimates and judgments in applying accounting policies

a) Impairment losses on loans and advances

The Bank reviews its loan portfolio to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Individual estimates are based on future cash flows assessed by accounting officers using all relevant information on counterparty and its ability to meet specific obligations. Scheduled cash flows are reviewed by independent body. Low value exposures are reviewed on the pool basis. The methodology and assumptions used

for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and cooperative market prices. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) Impairment of available for sale equity investments

The Bank determines that available for sale equity investments are impaired when there has been a significant decline in the fair value below its cost. This determination of what is significant requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

d) Held to maturity investments

The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity investments. Before making this classification the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held to maturity investments is tainted, the fair value would decrease by 63 million, with a corresponding entry in the fair value reserve in shareholders' equity.

2.30 Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial reporting Interpretations Committee (IFRIC) of the IASB that are effective for accounting periods beginning on

1 January 2005. The adoption of new and revised Standards and Interpretations has affected mostly the Group's accounting policies regarding IAS 39 Financial Instruments: recognition and measurement and IFRS 3 Business combination.

Implementation of revised IAS 39 resulted in following changes:

- the Group changed accounting policy regarding the presentation of effects of changes in fair value of available for sale securities from income statement to equity,
- the Group reclassified securities acquired at original issuance, which are quoted in the market from loans to available for sale group,
- the Group reclassified certain securities from trading to available for sale group and to financial assets at fair value through profit or loss group in accordance with transitional provisions (39.105) of revised standard.

Implementation of revised IAS 39 resulted in an increase of equity by 2,176 million tolar (2004: 4,016 million tolar). Financial statements for the year 2004 have been restated in order to reflect changes to new IAS 39 consequently 501 million tolar losses were transferred from retained earnings to revaluation reserve.

Implementation of revised IFRS 3 resulted in derecognition of the carrying amount of negative goodwill at the beginning of the period, with a corresponding adjustment to the opening balance of retained earnings as at 1 January 2005 in the amount of 871 million tolar. Revised IAS 38 has been applied prospectively as of 1 January 2005.

Adoption of other new and revised standards has no material effects on the Group's financial statements. In summary:

- IAS 1 has affected the presentation of minority interest in consolidated financial statements.
- IAS 8, 10, 16, 17, 27, 28, 32, and 33 had no material effect on the Group's policies.
- IAS 21 had no material effect on the Group's policy. All the Group entities have the same functional currency as their presentation currency.
- IAS 24 has affected some new related party disclosures.
- IAS 38 - The Group reassessed the useful lives of intangible assets. No adjustment resulted from this reassessment.

2.31 IFRS issued but not yet effective

In August 2005, the IASB issued IFRS 7 Financial Instruments: Disclosures. The new standard does not

change the recognition and measurement of financial instruments, IFRS 7 has no effect on net profit and equity. The new standard requires entities to make enhanced quantitative and qualitative risk disclosures for all major categories of financial instruments in their financial statements. IFRS 7 is effective from 1 January 2007 onward.

3. RISK MANAGEMENT POLICIES OF THE GROUP

The strategy of the risk management system in NLB Group is to maintain stable performance in the future. The Risk Management Department has an independent and centralized role in monitoring the different risks associated with the data structure, adopted methodologies, reporting, and the limits placed within the decision-making process.

The Bank draws up risks policies and strategies in conjunction with its subsidiaries. The Bank therefore has a centralised role in controlling the different risks.

a) Credit Risk Management

The NLB Risk Management Department is responsible for monitoring credit risk for the Group as a whole.

The credit portfolio includes loans (to corporate, retail and the public sector), exposure to other banks and financial institutions, and corporate bonds and other banking products (such as guarantees, derivative instruments, etc). By entering into any of the above-mentioned transactions the group members expose themselves to credit risk.

Subsidiaries must comply with standards of the internal credit risk system of NLB.

Depending on the risk category of a client, as expressed by its rating, and the risk of a specific business or project, which is also influenced by the guarantees provided, each member of the group forms appropriate provisions for credit risk. Provisions are formed for both local and International Financial Reporting Standards.

Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, both by amount and term. Trading in these derivatives is not very active and the majority of deals are made for servicing clients, whereby all positions are ostensibly closed. The amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group, which in relation to derivatives

is only a small fraction of the contract or notional values used to express the volume of outstanding instruments. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers when required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of losses is less than total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

b) Market risk management

Market risk concerns itself with potential losses in the group's positions, which arise due to adverse changes in the interest rate, foreign exchange, equities and derivatives markets. Market risk management is a process comprising the monitoring and measurement of individual risks with the aim to manage potential negative financial effects that could arise as a result of changes in market prices. The methodology employed fully meets the requirements of the Slovenian regulators.

Foreign Exchange Risks (FX)

The Group's financial position and cash flows are exposed to foreign currency fluctuations. Foreign exchange risk is monitored and managed on a daily basis. By closing open FX positions on a daily basis the bank minimizes its foreign exchange exposure and adheres to conservative policy on managing foreign exchange risk. Limits on permissible exposure in each foreign currency and for every trader have been confirmed by the management board and are monitored on a daily basis.

In addition to the standardized methodology the Bank uses its own internal Value at Risk model to determine the FX risk embedded in its positions (trading and investment book positions) and the maximum potential losses associated with them. The VaR numbers are calculated using a historical simulation method and are in accordance with Basel II standards on capital charge calculations (99% confidence interval, 10 days holding period, 250 working days observation period). The method is based on a daily calculation of changes in the foreign exchange part of the on-balance and off-balance sheet items, thereby taking into account previous exchange rate values and their mutual correlations during the previous year. In addition to this, backtesting is carried-out on a daily basis to corroborate the precision of the internal model. Since the model is still in the testing phase, the Bank of Slovenia has not issued an approval for the model to be formally used in capital adequacy calculations yet. Therefore its application is constrained only to internal usage.

Interest Rate Risks

Interest rate risk arises when interest rate sensitive assets have different maturities or repricing characteristics than the corresponding interest rate sensitive liabilities. The Bank and its Slovenian subsidiaries are using a gap methodology, duration and Basis-Point-Value, while foreign subsidiaries are using their own models, making different scenarios for interest rate movements.

The objective in managing interest rate risks is to lower the volatility of net interest margins. The bank's interest rate exposures are monitored and managed using interest rate sensitivity gap reports. Those reports contain both on- and off-balance sheet net interest rate sensitive positions which are separated by types of interest rates and repricing bands at a single point in time. To monitor vulnerability to interest rate changes, the Bank uses techniques designed to keep track of the market value and income-related aspects (e.g., by measuring interest income sensitivity) of the position. Regarding the bond portfolio, techniques such as variance covariance Value-at-Risk (VAR) and duration approach are used.

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 that at all times assures immediate fulfilment of matured financial obligations towards its clients. Therefore several structural liquidity ratios (concerning assets, liabilities and relationship among them) are calculated and reported on a regular basis.

Equity Risks

In the area of equity investments the bank and its subsidiaries follow its investment policies, which have been approved by the management board. These policies define permissible investment structures within a portfolio, the associated monitoring and managing of risk, and potential hedging strategies for the portfolios. During 2005 the major part of the portfolio remained relatively stable.

The bank applies a VaR calculation to monitor and manage the equity portfolio's risk. The method measures potential losses of the portfolio within a 10-day holding period, given a confidence interval of 99%. The VaR figure is calculated based on 250-days of historical data and is in accordance with Bank for International Settlement standards. The calculation is using a historical VaR simulation, whereby the bank does not need to make assumptions about the distribution of returns.

4. CHANGES IN SUBSIDIARY HOLDINGS

In the year 2004 and 2005 the following changes occurred which had impact on the consolidated financial statements.

a) Acquisitions in the year 2005

The most important acquisitions in the year 2005 were performed on the region of ex Yugoslav republics, that is:

- 80.29% of Euromarket bank a.d., Podgorica in April,
- 98.77% of Continental bank a.d., Novi Sad in July,
- 83.54% of Tuzlanska bank d.d., Tuzla in September,
- 92.42% of Razvojna bank, Banja Luka a.d. in September.

For all above-mentioned banks, except for Continental bank, the mergers with existent banks on those regions were expected. On 1 January 2006 Euromarket bank already successfully merged with Montenegro bank, Razvojna bank merged with LHB Bank Banja Luka on 1 April 2006, while the merger of Tuzlanska bank with CBS bank is expected on 1 July 2006.

Goodwill on acquisition in the amount of 825 million tolar for Euromarket bank, 3,525 million tolar for Continental bank, 4,748 million tolar for Tuzlanska bank and 3,757 million tolar for Razvojna bank was calculated. The goodwill is attributable to the market share and profitability of the acquired business and the significant synergies expected to arise. Fair value of assets and liabilities acquired are based on discounted cash flow models.

The total assets of these banks amounted to 134,642 million tolar at the end of the year 2005, which represents 4.52% of total assets of the Group. The previous year figures are not completely comparable.

The fair value of the assets and liabilities acquired is not substantially different from their carrying value.

In millions of tolar	
Cash and cash equivalents	28,253
Loans and advances to customers	63,884
Other assets	11,581
Due to customers	(84,507)
Other liabilities	(2,780)
Goodwill (note 25)	12,856
Total purchase consideration paid (discharged by cash)	29,287
Cost of acquisition	29,287
Less: Cash and cash equivalents in subsidiary acquired	(28,253)
Cash outflow on acquisition	1,034

b) Acquisitions in the year 2004

- NLB gradually increased its interest in three Slovenian banks - in Banka Domžale from 58.46% to 59.80% for 156 million tolar, in Koroška banka from 54.5% to 61.9% for 1,146 million tolar and in Banka Zasavje from 62.11% to 70.08% for 498 million tolar. Goodwill on acquisition in the amount of 20 million tolar for Banka Domžale, 65 million tolar for Koroška banka and negative goodwill in the amount of 10 million tolar for Banka Zasavje was calculated.
- In the second quarter of the year, NLB acquired a 9.38% interest for 456 million tolar in LHB Bank Beograd. Together with the existing interest of LHB Bank Frankfurt the total interest increased to 60.40%. Acquisition resulted in goodwill in the amount of 182 million tolar.
- In November and December LHB Banka Banja Luka acquired a 49% interest for 78 million tolar and LHB Trade Zagreb a 30% interest for 69 million tolar in company Plan, Banja Luka. Due to the immateriality and acquisition just before the end of the year this company is not included in the consolidation.
- In July NLB acquired a small number of shares of Skupna pokojninska družba, consequently its interest increased from 26.94% to 27.18%.
- In June LB Leasing, Ljubljana, sold its interest in LB Leasing Maribor to NLB and three Slovenian daughter banks.
- In November NLB acquired all the ordinary and preference shares of Tutunska banka from Tutunskabroker, so that the group interest in Tutunska banka increased from 72.42% to 73.12%.
- In November LB Leasing Ljubljana founded a new 100 % subsidiary CBS Leasing, Sarajevo.
- In December NLB Factoring Ostrava founded a new 100 % subsidiary NLB Factor, Bratislava.

c) Acquisitions in existing banks

NLB increased its ownership interest in following banks:

- in Banka Domžale from 59.80% to 65.98%, goodwill in the amount of 30 million tolar was calculated
- in Koroška banka from 61.7% to 62.54%, goodwill in the amount of 9 million tolar was calculated
- in Banka Zasavje from 66.59% to 70.80%, excess in the amount of 6 million tolar was calculated
- in LHB Banka, Beograd from 60.38% to 66.95%, goodwill in the amount of 112 million tolar was calculated
- in Tutunska banka, Skopje from 73.12% to 74.19%, excess in the amount of 32 million tolar was calculated
- in Banka Celje from 30.50% to 30.62%, goodwill in the amount of 10 million tolar was calculated.

d) New subsidiaries

In the year 2005 the following new subsidiaries were founded:

- LB Leasing, Ljubljana founded 100% subsidiaries LB Leasing, Podgorica and Optima Leasing, Zagreb
- Prvi Faktor, Ljubljana founded 100% subsidiary Prvi Faktor, Beograd
- NLB and Tutunska banka founded 100% subsidiary Nov Penziski fond, Skopje

5. → Significant events after the balance sheet date

NLB d.d. signed in April 2006 a contract with foreign banks for syndicated loan in the amount of 168 billion tolar with the maturity 5 years. This event represents the biggest international loan arrangement in Slovenia and one of the most significant loan arrangements in the Central and Eastern Europe financial markets. Syndicate involves 35 foreign banks from 18 countries and 5 continents. Loan will be used to finance Slovenian companies under more competitive conditions.

6. → Interest income/expense

Interest relates to the following types of borrower and depositor:

In millions of tolar	2005		2004	
	Income	Expense	Income	Expense
Enterprises	65,404	8,027	55,507	8,678
Government departments and agencies	15,005	2,556	19,148	3,004
Banks	21,858	21,723	23,408	14,841
Citizens	28,540	19,355	23,822	22,172
Financial organisations	3,483	5,109	2,939	5,817
TOTAL	134,290	56,770	124,824	54,512

Interest relates to the following types of assets and liabilities:

In millions of tolar	2005	2004
INTEREST INCOME		
Loans and advances to customers	95,056	83,579
Loans and advances to other banks	5,451	4,776
Securities	28,406	34,463
Deposits with the Central Bank	4,124	1,734
Other	1,253	272
TOTAL	134,290	124,824
INTEREST EXPENSE		
Deposits from other customers	29,062	32,223
Debt securities	8,314	7,638
Borrowings from banks	11,549	7,934
Deposits from banks	5,661	4,826
Borrowings from other customers	1,301	1,354
Other liabilities	883	537
TOTAL	56,770	54,512

7.
→ Fees and commissions
income/(expense)

In millions of tolar	2005	2004
FEES AND COMMISSIONS INCOME		
Payments	12,997	11,140
Agent services	8,983	8,022
Administrative services/brokerage	8,986	7,320
Guarantees	2,651	2,847
Investment funds	947	677
Depositing valuables in safe custody	226	201
Other services	405	232
TOTAL	35,195	30,439
FEES AND COMMISSIONS EXPENSE		
Banking services	4,993	4,493
Payments	515	414
Agent services	1,622	1,457
Brokerage	297	216
TOTAL	7,427	6,580

8.
→ Other operating income

In millions of tolar	2005	2004
Income from IT services	3,603	3,301
Rental income from investment property	592	610
Dividends	615	413
Profit on disposal of property and equipment	447	301
Excess	47	1,048
Other	1,254	1,289
TOTAL	6,558	6,962

9.
→ Impairment losses

In millions of tolar	2005	2004
Impairment charge/(write back) arising from:		
• loans and advances to banks (note 15c)	(4,051)	1,916
• loans and advances to customers (note 18e)	16,208	11,897
• other assets (note 22b)	403	236
• contingent liabilities and commitments (note 42d)	1,916	4,572
Write offs	184	452
Recoveries on loans previously written off	(683)	(554)
TOTAL	13,977	18,519

10.
→ General administrative
expenses

In millions of tolar	2005	2004
Employee costs		
• gross salaries	27,624	25,573
• pension costs	2,346	2,189
• social security costs	3,785	3,533
• other employee costs	6,481	5,628
• employee benefits (note 35b)	40	114
Other general administrative expenses		
• cost of materials	3,334	3,385
• cost of services	20,439	18,277
TOTAL	64,049	58,699

The number of persons employed by the Group as at 31 December 2005 was: 7,408 (2004: 5,790).

11.
→ Other operating
expenses

In millions of tolar	2005	2004
Depreciation (note 25, 26)	9,465	8,767
Impairment of tangible and intangible assets (note 26)	3,177	3,135
Provisions (note 35)	2,060	1,084
Membership fees	412	373
Fair value adjustment for investment property (note 20)	301	95
Goodwill	-	188
Other	888	729
TOTAL	16,303	14,371

12.
→ Income tax expense

In millions of tolar	2005	2004
Current tax expense	7,406	8,773
Deferred tax	(1,952)	(2,936)
TOTAL	5,454	5,837
Profit before tax	25,250	22,175
Tax calculated at a rate of 25%	6,312	5,544
Income not assessable for tax purposes	(2,685)	(821)
Expenses not deductible for tax purposes	3,772	3,030
Income which increases taxable basis	252	255
Tax allowance	(1,649)	(1,084)
Other tax	-	936
Effects of tax rate difference and other items	(548)	(2,023)
TOTAL	5,454	5,837

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances that may give rise to a potential material liability in this respect.

13.
→ Earnings per share

Basic earning per share is calculated by dividing the net profit by the weighted average number of ordinary shares in issue.

In millions of tolar	2005	2004
Net profit (expressed in millions of tolar)	16,973	13,643
Number of ordinary shares (millions)	7.7	7.7
Basic and diluted earnings per share (expressed in tolar per share)	2,209	1,776

Subordinated loans and debt securities in issue have no future conversion options and consequently there are no dilutive potential ordinary shares.

14.
→ Cash and balances with
the central bank

In millions of tolar	2005	2004
Cash	28,256	20,511
Balances with the Central Bank other than obligatory reserves	34,710	7,446
Included in cash and cash equivalents	62,966	27,957
Obligatory reserve deposit with Central Bank	68,072	47,415
TOTAL	131,038	75,372

Slovenian banks are 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 2% of all time deposits to 2 years.

15.
→ Placements with,
and loans to banks

a) Analysis by type of placements and loans

In millions of tolar	2005	2004
Repayable on demand		
• in tolar	14	2
• in foreign currency	30,702	14,929
Other short-term		
• in tolar	5,100	4,951
• in foreign currency	76,064	57,508
Long-term		
• in tolar	93,461	79,257
• in foreign currency	20,407	20,877
	225,748	177,524
Impairment provisions	(2,205)	(6,611)
TOTAL	223,543	170,913

b) Geographical analysis

In millions of tolar	2005	2004
Slovenia	117,472	99,976
OECD countries	47,859	42,506
Other countries	58,212	28,431
TOTAL	223,543	170,913

c) Movements in impairment provisions

In millions of tolar	2005	2004
Balance at 1 January	6,611	4,948
Acquisition of subsidiaries	10	-
Exchange difference on opening balance of subsidiaries	(38)	(22)
Impairment provisions (note 9)	(4,051)	1,916
Write offs	(327)	(231)
Balance at 31 December	2,205	6,611

16.
→ Securities at fair value
through profit or loss

In millions of tolar	2005	2004
Bonds	105,773	85,270
Shares	20,979	21,565
Treasury Bills	2,849	6,372
Certificate of deposits of the Bank of Slovenia	35,500	18,685
Other bills and securities	6,236	3,298
TOTAL	171,337	135,190

At 31 December 2005 of the securities held for trading amounting to 123,387 million tolar were listed on the stock exchange (2004: 97,822 million tolar).

Other bonds include bonds with a total value of 102 million tolar, which have the nature of a subordinated debt. Bonds do not include any equity conversion option or any other derivative future.

Securities held for trading at fair value of 380 million tolar (2004: 432 million tolar) had been pledged to third parties in sale and repurchase agreements. These securities have been reclassified as pledged assets in the face of the balance sheet.

The Group has not designated any financial liability as at fair value through profit or loss.

17.
→ Derivatives

In millions of tolar	Notional amount 2005	Notional amount 2004	Fair values 2005		Fair values 2004	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange swaps with the Bank of Slovenia	150,210	170,220	7	15	-	9
Other swaps						
• Interest rate swaps	135,390	49,409	742	1,289	537	392
• Foreign currency swaps	105,921	41,427	589	120	286	1,756
Options	70,463	17,280	264	776	314	559
Forward contracts	36,072	27,980	501	161	649	770
Futures	1,840	477	-	-	-	-
TOTAL (note 22, 33)	499,896	306,793	2,103	2,361	1,786	3,486

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.

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

18.
→ Loans and advances
to customers

a) Analysis by type of customer		
In millions of tolar	2005	2004
In tolar		
• citizens	226,862	230,411
• enterprises	341,159	354,743
• government departments and agencies	23,698	24,151
• other financial organisations	5,335	4,547
In tolar with foreign currency		
• citizens	14,664	5,904
• enterprises	48,647	38,746
• government departments and agencies	8,093	9,943
• other financial organisations	1,228	1,463
In foreign currency		
• citizens	124,762	33,330
• enterprises	922,222	621,910
• government departments and agencies	4,348	2,849
• other financial organisations	24,095	8,303
	1,745,113	1,336,300
Impairment provisions	(86,931)	(61,510)
TOTAL	1,658,182	1,274,790

b) Analysis by sector

In millions of tolar	2005	2004
Manufacturing	472,844	361,682
Citizens	365,468	269,811
Services	328,897	218,023
Commerce and finance	275,675	207,436
Transport, storage and communication	87,805	75,855
Construction	79,807	50,672
Sole proprietors	43,323	34,335
Government	35,705	74,969
Agriculture, forestry and fishing	32,718	15,756
Electricity, gas and water	16,354	17,907
Miscellaneous	6,517	9,854
	1,745,113	1,336,300
Impairment provisions	(86,931)	(61,510)
TOTAL	1,658,182	1,274,790

c) Analysis by type of advance

In millions of tolar	2005	2004
Loans	1,589,999	1,219,163
Overdrafts	75,328	63,281
Finance lease receivables	69,368	43,911
Credit cards	8,518	8,353
Called guarantees	1,900	1,592
	1,745,113	1,336,300
Impairment provisions	(86,931)	(61,510)
TOTAL	1,658,182	1,274,790

d) Analysis of movements

In millions of tolar	2005	2004
Balance at 1 January	1,274,790	1,063,823
Acquisition of subsidiaries	62,918	-
Exchange difference on opening balance of subsidiaries	682	1,645
Increase		
• loans distributed	2,602,154	2,391,123
• interest added to principal	18,190	20,913
• exchange differences	5,123	2,280
Decrease		
• repayments	(2,289,400)	(2,192,615)
• write offs	(67)	(482)
Impairment provisions	(16,208)	(11,897)
Balance at 31 December	1,658,182	1,274,790

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e) Movements in impairment provisions

In millions of tolar	2005	2004
Balance at 1 January	61,510	56,774
Acquisition of subsidiaries	12,038	-
Exchange difference on opening balance of subsidiaries	(409)	(101)
Impairment provisions (note 9)	16,208	11,897
Write offs	(2,416)	(4,083)
Other	-	(2,977)
Balance at 31 December	86,931	61,510

f) Finance leases

Loans and advances to customers include finance lease receivables:

In millions of tolar	2005	2004
Gross investment in finance leases:		
• Not later than 1 year	16,618	12,673
• Later than 1 year and not later than 5 years	53,836	31,714
• Later than 5 years	14,842	9,364
	85,296	53,751
Unearned future finance income on finance leases	(15,928)	(9,840)
Net investment in finance leases	69,368	43,911

The net investment in finance leases may be analysed as follows:

In millions of tolar	2005	2004
• Not later than 1 year	13,432	10,705
• Later than 1 year and not later than 5 years	41,094	23,842
• Later than 5 years	14,842	9,364
	69,368	43,911

The allowance for unrecoverable finance lease receivables included in the provision for loan losses amounted to 1,619 million tolar (2004: 1,114 million tolar).

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 tolar	2005	2004
Republic of Slovenia guarantees	72,776	79,081
Other banks' guarantees	27,262	3,788
TOTAL	100,038	82,869

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 financial instruments Note 40 and Related party transactions Note 44.

19.
→ **Investment securities**

a) Analysis by type: available-for-sale portfolio

In millions of tolar	2005	2004
In foreign currency		
• equity investments	1,116	1,211
• debt securities	270,818	298,230
In tolar		
• equity investments	5,943	7,698
• debt securities	302,351	260,110
TOTAL a)	580,228	567,249

b) Analysis by type: held-to-maturity portfolio

In millions of tolar	2005	2004
In foreign currency		
• Bonds of the Republic of Slovenia	677	999
• Other bonds	8,473	4,893
In tolar		
• Bonds of the Republic of Slovenia	-	31,463
TOTAL b)	9,150	37,355
TOTAL a) + b)	589,378	604,604

At 31 December 2005 the investment securities amounting to 215,655 million tolar (2004: 172,823 million tolar) were listed on the stock exchange.

Securities available for sale at fair value of 29,470 million tolar (2004: nil) had been pledged to third parties in sale and repurchase agreements for periods not exceeding 3 months. These have been reclassified as pledged assets in the face of the balance sheet.

c) Gains and losses from investment securities comprise:

In millions of tolar	2005	2004
Impairment of available for sale equity securities	(113)	(336)
Sale of available for sale securities	2,509	1,816
TOTAL	2,396	1,480

The movement in investment securities (including pledged securities) may be summarised as follows:

In millions of tolar	Available for sale and pledged assets	Held to maturity	Total
Balance at 1 January 2005	567,249	37,355	604,604
Acquisition of subsidiaries	1,008	-	1,008
Exchange differences on opening balances of subsidiaries	75	-	75
Additions	1,134,739	3,589	1,138,328
Disposals (sale and redemption)	(1,096,237)	(32,405)	(1,128,642)
Interest added	2,406	497	2,903
Exchange differences on monetary assets	1,676	114	1,790
Changes in fair values	(1,105)	-	(1,105)
Impairment	(113)	-	(113)
Balance at 31 December 2005	609,698	9,150	618,848

Included in available for sale financial assets are debt securities that were classified as originated loans and had a carrying amount of 425,925 million tolar in previous financial statements and debt securities that were previously classified as securities held for trading with a carrying amount of 46,755 million tolar. A fair value gain of 3,299 million tolar was recognised in opening balance of revaluation reserve within the equity due to this reclassification.

Included in available for sale financial assets are also equity securities that were in previous financial statements classified as held for trading and had fair value of 5,228 million tolar. Fair value of these equity securities as at 31 December 2005 is 4,680 million tolar.

For the year 2004 501 million tolar losses were transferred from retained earnings to revaluation reserve due to change in accounting policy for available for sale securities.

20.
→ Investment property

In millions of tolar	2005	2004
Balance at 1 January	4,046	4,777
Exchange difference on opening balance of subsidiaries	1	(9)
Acquisition of subsidiaries	179	-
Transfers from property and equipment (note 25)	739	64
Additions	1,608	647
Disposals	(5)	(1,118)
Transfers to property and equipment (note 25)	(176)	(58)
Fair value adjustment (note 11)	(301)	(95)
Other	-	(162)
Balance at 31 December	6,091	4,046

21.
→ Investments in
associated companies
and joint ventures

In millions of tolar	2005	2004
In tolar		
• Banks	8,999	8,999
• Financial organisations	1,322	1,087
• Enterprises	981	888
In foreign currency		
• Banks	2,696	2,577
• Financial organisations	-	36
• Enterprises	73	45
TOTAL	14,071	13,632

The associated companies are:

Name	Nature of Business	Country of Incorporation	Total assets	Profit/loss	Voting power held
Banka Celje d.d., Celje	Banking	Republic of Slovenia	412,873	1,382	37.52%
Adria Bank AG, Wien	Banking	Austria	57,520	453	28.46%
Bankart d.o.o., Ljubljana	Card Processing	Republic of Slovenia	3,095	243	39.45%
West - East Bank AD, Sofia	Banking	Bulgaria	8,633	216	24.50%
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	27,536	86	27.99%
Krajinapromet AD, Banja Luka	Commerce	Republic of Bosnia and Herzegovina	209	(28)	30%
ICJ d.o.o., Domžale	Real Estate	Republic of Slovenia	456	17	50%

The jointly controlled companies are:

Name	Nature of Business	Country of Incorporation	Total assets	Profit/loss	Voting power held
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	14,574	51	50%
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	23,197	147	50%

The investments in associated companies comprise:

In millions of tolar	2005	2004
Shares	6,435	7,421
Debentures	153	153
Share of profits	7,483	6,058
TOTAL	14,071	13,632

The movements on investments in associated companies and joint ventures comprise:

In millions of tolar	2005	2004
Balance at 1 January	13,632	10,632
Acquisitions	3,508	548
Exchange difference on opening balance	(43)	26
Change from proportional to equity method for joint ventures	-	807
Share of profits before tax	1,147	2,154
Share of tax (note 12)	(327)	(564)
Net gains not recognised in income statement	40	554
Dividends received	(571)	(525)
Disposals	(3,283)	-
Other	(32)	-
Balance at 31 December	14,071	13,632

In the year 2005 the Bank acquired 7.17% share in Banka Celje, which was sold at the end of the year in order to meet capital adequacy requirements.

22.
→ Other assets

a) Analysis by type of asset

In millions of tolar	2005	2004
Interest receivables	5,719	3,919
Prepayments	4,090	1,815
Debtors	2,926	2,756
Items in the course of collection	2,782	3,459
Claim for taxes	1,256	968
Fees and commissions receivables	860	530
Property held for sale by the real estate operation	566	2,169
Other items	3,612	1,832
	21,811	17,448
Impairment provisions		
• debtors	(1,697)	(1,770)
• claims for taxes and other dues	(574)	(589)
• other items	(1,567)	(573)
TOTAL	17,973	14,516

b) Movements in impairment provisions

In millions of tolar	2005	2004
Balance at 1 January	2,932	2,994
Acquisition of subsidiaries	823	-
Exchange difference on opening balance of subsidiaries	(182)	(256)
Impairment provisions (note 9)	403	236
Write offs	(156)	(182)
Other	18	140
Balance at 31 December	3,838	2,932

23.
→ Deferred income taxes

The components of the net deferred tax assets at 31 December 2005 and 2004 are as follows:

In millions of tolar	2005	2004
Deferred tax liabilities:		
Impairment provisions	10,423	9,559
Fair value of financial instruments	874	3,494
Revaluation of property and equipment	242	-
Excess	40	94
Total deferred tax liability	11,579	13,147
Deferred tax assets:		
Employee benefit provisions	795	745
Tax losses	437	-
Impairment provisions	358	54
Tax benefits	62	-
Total deferred tax assets	1,652	799
Net deferred tax liability	9,927	12,348
Charge to income statement	1,952	2,936
Charge to equity	469	(160)

24.
→ Accrued income and deferred expenses

In millions of tolar	2005	2004
Accrued interest	16,533	14,505
Deferred expenses	562	572
TOTAL	17,095	15,077

25.
→ Property and equipment

In millions of tolar	2005						Total
	Land & Buildings	Leasehold Improvements	Computers	Furniture & Equipment	Motor Vehicles	Assets in Course of Transfer or Construction/Implementation	
Cost							
• at 1 January 2005	60,254	2,085	25,869	18,268	3,676	1,213	111,365
• acquisition of subsidiaries	7,473	205	1,074	1,895	209	792	11,648
• exchange difference on opening balance of subsidiaries	(189)	-	(34)	2	10	(1)	(212)
• additions	1,690	121	2,380	2,779	1,546	1,483	9,999
• disposals	(1,169)	(188)	(2,290)	(824)	(911)	-	(5,382)
• transfer to investment property	(1,019)	-	-	-	-	-	(1,019)
• transfer from investment property	424	-	-	-	-	-	424
• impairment	223	-	-	-	-	-	223
• transfer to non-current assets held for sale	(595)	-	-	-	-	-	(595)
at 31 December 2005	67,687	2,223	26,999	22,120	4,530	3,487	126,451
Depreciation							
• at 1 January 2005	16,619	1,384	18,783	12,667	1,463	-	50,916
• acquisition of subsidiaries	1,217	65	705	1,086	110	-	3,183
• exchange difference on opening balance of subsidiaries	(11)	-	(13)	(12)	3	-	(33)
• disposals	(291)	(183)	(2,250)	(472)	(485)	-	(3,681)
• charge for the year (note 11)	1,169	210	3,018	1,793	568	-	6,758
• transfer to investment property	(280)	-	-	-	-	-	(280)
• transfer from investment property	248	-	-	-	-	-	248
at 31 December 2005	18,671	1,476	20,243	15,062	1,659	-	57,111
Net carrying value							
at 31 December 2005	49,016	747	6,756	7,058	2,871	3,487	69,340
at 1 January 2005	43,635	701	7,086	5,601	2,213	1,213	60,449

In millions of tolar	2004						Total
	Land & Buildings	Leasehold Improvements	Computers	Furniture & Equipment	Motor Vehicles	Assets in Course of Transfer or Construction/Implementation	
Cost							
• at 1 January 2004	63,268	1,859	24,772	16,860	2,869	675	110,303
• exchange difference on opening balance of subsidiaries	15	(2)	(31)	(45)	(17)	(9)	(89)
• additions	1,638	357	2,880	2,168	5,140	187	12,730
• disposals	(2,055)	(129)	(1,752)	(715)	(4,316)	-	(8,967)
• impairment	(2,612)	-	-	-	-	-	(2,612)
at 31 December 2004	62,866	2,085	25,869	18,268	3,676	1,213	111,365
Depreciation							
• at 1 January 2004	15,994	1,354	17,471	11,586	1,320	-	47,725
• exchange difference on opening balance of subsidiaries	(2)	(1)	(12)	(17)	(6)	-	(38)
• disposals	(491)	(129)	(1,702)	(657)	(402)	-	(3,381)
• charge for the year (note 11)	1,118	160	3,026	1,755	551	-	6,610
at 31 December 2004	16,619	1,384	18,783	12,667	1,463	-	50,916
Net carrying value							
at 31 December 2004	46,247	701	7,086	5,601	2,213	1,213	60,449
at 1 January 2004	47,274	505	7,301	5,274	1,549	675	62,578

26.
→ Intangible assets

2005			
In millions of tolar	Software licences	Goodwill/Excess	Total
Cost			
• at 1 January 2005	24,194	(248)	23,946
• transfer to retained earnings	-	962	962
• acquisition of subsidiaries	411	-	411
• exchange difference on opening balance of subsidiaries	(8)	-	(8)
• additions	6,256	12,853	19,109
• disposals	(352)	-	(352)
• write offs	(3,986)	-	(3,986)
at 31 December 2005	26,515	13,567	40,082
Depreciation			
• at 1 January 2005	5,243	-	5,243
• acquisition of subsidiaries	169	-	169
• exchange difference on opening balance of subsidiaries	(5)	-	(5)
• disposals	(19)	-	(19)
• charge for the year (note 8, 11)	2,707	-	2,707
• write offs	(809)	-	(809)
at 31 December 2005	7,286	-	7,286
Net carrying value			
at 31 December 2005	19,229	13,567	32,796
at 1 January 2005	18,951	(248)	18,703
2004			
In millions of tolar	Software licences	Goodwill/Excess	Total
Cost			
• at 1 January 2004	18,966	(5,345)	13,621
• exchange difference on opening balance of subsidiaries	(6)	-	(6)
• additions	6,064	-	6,064
• disposals	(268)	(2,109)	(2,377)
• impairment	(562)	-	(562)
at 31 December 2004	24,194	(7,454)	16,740
Depreciation			
• at 1 January 2004	3,320	(4,662)	(1,342)
• exchange difference on opening balance of subsidiaries	(1)	-	(1)
• disposals	(233)	(1,684)	(1,917)
• charge for the year (note 8, 11)	2,157	(860)	1,297
at 31 December 2004	5,243	(7,206)	(1,963)
Net carrying value			
at 31 December 2004	18,951	(248)	18,703
at 1 January 2004	15,646	(683)	14,963

Intangible assets include the Group's information system with the carrying value of 15,052 million tolar (information system completed for use 10,635 million tolar, information system in course of implementation 4,417 million tolar). Accumulated amortisation of the information system as at 31 December 2005 amounted to 2,438 million tolar while the amortisation costs of the system in the year 2005 amounted to 1,091 million tolar. The remaining useful life of the information system is between 6 and 10 years.

In the year 2005 the Group wrote off the investment in software in the amount of 3,177 million tolar as a consequence of changes in regulatory environment that resulted in certain assets not being useful any longer and had to be replaced.

Goodwill is presented net of excess. The remaining amount of the excess as at 31 December 2004 was transferred to retained earnings.

27.
→ Non-current assets held for sale

In millions of tolar	2005
Balance at 1 January	-
Acquisition of subsidiaries	201
Transfers from property and equipment, other assets	2,796
Disposals	(659)
Balance at 31 December	2,338

28.
→ Deposits from banks

In millions of tolar	2005	2004
On demand		
• in tolar	8,243	3,954
• in foreign currency	15,371	20,080
Other		
• in tolar	5,645	7,501
• in foreign currency	137,274	89,616
TOTAL	166,533	121,151

29.
→ Borrowings from banks

In millions of tolar	2005	2004
In tolar	1,677	1
In foreign currency	655,123	362,441
TOTAL	656,800	362,442

30.
→ Deposits from
other customers

In millions of tolar	2005	2004
Demand deposits		
• enterprises		
• in tolar	98,453	85,267
• in foreign currency	93,405	61,260
• Government departments and agencies		
• in tolar	11,292	14,523
• in foreign currency	15,895	2,522
• citizens		
• in tolar	294,102	272,630
• in foreign currency	234,764	66,128
• financial organisations		
• in tolar	2,029	998
• in foreign currency	3,588	1,906
Time deposits		
• enterprises		
• in tolar	124,956	102,848
• in foreign currency	68,330	55,484
• Government departments and agencies		
• in tolar	35,169	27,468
• in foreign currency	8,513	1,271
• citizens		
• in tolar	311,152	308,813
• in foreign currency	242,393	346,038
• financial organisations		
• in tolar	23,472	34,515
• in foreign currency	5,949	8,064
TOTAL	1,573,462	1,389,735

31.
→ Borrowings from
other customers

In millions of tolar	2005	2004
Republic of Slovenia		
• in foreign currency	7,904	5,902
Financial organisations		
• in tolar	2,521	5,167
• in foreign currency	27,938	28,918
Enterprises		
• in tolar	1,200	616
• in foreign currency	47,628	43,135
TOTAL	87,191	83,738

32.
→ Debt securities

In millions of tolar	2005	2004
Debt securities		
• in tolar	81,978	80,195
• in foreign currency	9,623	13,724
TOTAL	91,601	93,919

33.
→ Other liabilities

In millions of tolar	2005	2004
Suppliers	6,086	5,727
Items in the course of payment	5,968	2,043
Liabilities to traders for credit cards	3,999	4,338
Factoring	2,636	2,722
Accrued salaries	2,427	1,975
Interest payable	1,763	1,382
Taxes payable	1,439	1,282
Payments received in advance	1,044	510
Fees and commissions due	264	80
Net liabilities for funds managed on behalf of third parties	56	1,099
Other liabilities	1,651	2,339
TOTAL	27,333	23,497

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34.
→ Accruals and deferred income

In millions of tolar	2005	2004
Accrued interest not yet due	12,170	9,936
Other accrued expenses	1,658	1,334
Deferred income	459	793
TOTAL	14,287	12,063

35.
→ Provisions for liabilities and charges

a) Analysis by type of provisions

In millions of tolar	2005	2004
Provisions for contingent liabilities (note 42a)	12,916	10,555
Employee benefit provisions	3,026	2,808
Provisions for pensions	2,857	2,697
Other provisions	1,512	80
Termination benefits	600	720
TOTAL	20,911	16,860

b) Movements in employee benefit provisions

In millions of tolar	2005	2004
Balance at 1 January	2,808	2,741
Exchange difference on opening balance of subsidiaries	(7)	(3)
Acquisition of subsidiaries	309	-
Provisions made (note 10)	73	169
Costs incurred	(124)	(186)
Provisions released (note 10)	(33)	(55)
Other	-	142
Balance at 31 December	3,026	2,808

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long - term services benefits. Valuations of these obligations are carried out by independent qualified actuaries.

c) Movements in provisions for pensions

In millions of tolar	2005	2004
Balance at 1 January	2,697	2,475
Exchange difference on opening balance of subsidiaries	(2)	32
Provisions made (note 11)	297	324
Costs incurred	(135)	(134)
Balance at 31 December	2,857	2,697

d) Movements in other provisions

In millions of tolar	2005	2004
Balance at 1 January	80	1,349
Exchange difference on opening balance of subsidiaries	(3)	-
Provisions made (note 11)	1,497	76
Costs incurred	(17)	-
Provisions released (note 11)	(45)	(36)
Other	-	(1,309)
Balance at 31 December	1,512	80

In the year 2005 the Group established provisions in the amount of 1,095 million tolar presenting estimated obligation to Residential fund of the Republic of Slovenia in the case clients would decide not to raise a loan under the conditions granted by the national saving scheme.

e) Termination benefits

In millions of tolar	2005	2004
Balance at 1 January	720	28
Additional provisions charged to Income Statement (note 11)	311	720
Cost incurred	(431)	(28)
Balance at 31 December	600	720

In the year 2005 the Bank decided to continue further the employee termination benefits process in order to reduce the operating expenses. Therefore the Bank established additional provisions in the amount of 311 million tolar.

36.
→ Subordinated liabilities

In millions of tolar	Currency	Due	Interest rate	2005	2004
1. Subordinated deposits and loans					
	SIT	2005	GPI+6%	-	400
	EUR	2012	EURIBOR+1.2% till 24.7.2007, after that date EURIBOR +1.5%	21,562	21,577
				21,562	21,977
2. Subordinated notes					
	SIT	2013	Fixed rate 7.0%	10,529	10,509
	in SIT with foreign clause	2008	EUR + 5.0%	3,345	3,344
	in SIT with foreign clause	2011	Fixed rate 4.5%	1,198	1,199
	EUR	2014	3 M EURIBOR + 1.25%	11,978	11,987
	EUR	2014	3 M EURIBOR + 1.6%	23,958	23,974
	EUR	2015	6 M EURIBOR + 1.7%	31,145	-
				82,153	51,013
TOTAL				103,715	72,990

In the year 2005, interest and commission expense of the Group, on the basis of subordinated liabilities, amounted to 3,558 million tolar (2004: 2,019 million tolar).

In accordance with the Decree on the calculation of capital, capital requirements and capital adequacy of banks and savings banks, one subordinated long-term loan and bonds are included in the Group's Tier 2 capital as at 31 December 2005. The loan agreements do not contain any provisions on conversion to capital or any other liabilities.

In the year 2005 the Bank issued new subordinated securities that are perpetual floating rate notes. A call option gives the bank the right to redeem these securities after 10 years from the date of their issuance.

37.
→ Ordinary shares

In millions of tolar	Number of shares	Treasury shares	Total
At 1 January 2005	7,682,015	(34,925)	7,647,090
At 31 December 2005	7,682,015	(34,925)	7,647,090

38.
→ Share capital

At 31 December 2005, the total authorised number of ordinary shares was 7,682,015 shares, each with the nominal value of 2,000 tolar. The shares are issued in a non-materialised form and are registered with the Centralna klirinško depotna družba d.d. (Central Securities Clearing Corporation). All shares are ordinary and subscribed.

At the end of the year 2005 the NLB shareholders' ledger included 906 shareholders of whom 260 were legal entities, 640 private individuals and 6 non-residents.

According to the decision of the Assembly, in the year 2005 the Bank paid a dividend for the year 2004 in the amount of 358.28 tolar per share amounting to 2,740 million tolar.

39.
→ Reserves

In millions of tolar	Legal reserve	Fair value revaluation reserve	Other fair value revaluation reserve	General banking reserve	Total
Balance at 1 January 2004	3,240	19,308	-	8,202	30,750
Property, plant and equipment revaluation	-	(19,308)	-	-	(19,308)
Adoption of revised IAS 39	-	5,242	-	-	5,242
Balance at 1 January 2004 - restated	3,240	5,242	-	8,202	16,684
Net gains not recognised in income statement	-	418	-	-	418
Transfer from retained earnings	-	-	-	2,528	2,528
Balance at 31 December 2004	3,240	5,660	-	10,730	19,630
Balance at 1 January 2005	3,240	5,660	-	10,730	19,630
Net gains not recognised in income statement	-	(1,690)	-	-	(1,690)
Transfer from retained earnings	-	-	-	(20)	(20)
Other	-	-	96	-	96
Balance at 31 December 2005	3,240	3,970	96	10,710	18,016

The amount of 19,308 million tolar presenting accumulated revaluation of property, plant and equipment and capital investments was reclassified from reserves to retained earnings. This amount would be transferred in the past to the retained earnings through amortisation and depreciation of assets.

Fair value revaluation reserve - available for sale investments

In millions of tolar	2005	2004
Balance at 1 January	5,660	5,242
Net (Losses) / gains from changes in fair value	(1,367)	1,400
Deffered tax	312	(251)
Losses transferred to income statement	(792)	(863)
Deffered tax	157	132
Balance at 31 December	3,970	5,660

40.
→ Fair values of
financial instruments

The fair values of the following financial instruments differ from their carrying amounts shown in the balance sheet:

In millions of tolar	Note	Carrying amount 2005	Fair value 2005	Carrying amount 2004	Fair value 2004
Placements with, and loans to, other banks	15	223,543	224,511	170,913	171,727
Loans and advances to customers	18	1,658,182	1,659,785	1,274,790	1,290,223
Debt securities held to maturity	19b	9,150	9,086	37,355	38,031
Deposits from banks	28	166,533	164,566	121,151	118,979
Borrowings from banks	29	656,800	657,084	362,442	359,275
Deposits from other customers	30	1,573,462	1,473,524	1,389,735	1,359,263
Borrowings from other customers	31	87,191	86,239	83,738	83,476
Debt securities	32	91,601	95,747	93,919	96,687
Subordinated liabilities	36	103,715	104,974	72,990	72,279

Placements with and loans to 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 provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Debt securities held to maturity

The fair value of securities held to maturity is based on their quoted market price or calculated by using discounted cash flows techniques.

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

The fair value of issued securities is based on their quoted market price or calculated by using discounted cash flows techniques.

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41.
→ Capital ratios

In millions of tolar	Balance sheet		Risk weighted amount	
	2005	2004	2005	2004
Balance sheet assets (net of impairment provisions)				
Due from banks	354,581	246,285	72,732	41,076
Loans and advances to customers	1,658,182	1,274,790	1,493,227	1,098,269
Dealing and investment securities*	591,292	606,784	142,937	142,489
Property and equipment	69,340	60,449	69,340	60,449
Other assets	293,385	201,470	65,120	53,135
	2,966,780	2,389,778		
Off-balance sheet positions				
Credit related commitments	482,398	425,851	175,381	129,071
Forwards-based derivative instruments	499,896	306,793	1,375	1,621
			2,020,112	1,526,110
Total risk-weighted assets				
BIS Capital Ratios				
	Capital		BIS %	
	2005	2004	2005	2004
Tier 1 capital	169,386	160,245	8.4%	10.5%
Tier 1 + Tier 2 capital + Tier 3 capital	265,815	241,076	13.2%	15.8%

* Including credit and market risk

Tier 1 capital consists of shareholder's equity less goodwill and capital requirement for foreign exchange weighted assets and limited amount of innovative instruments. Tier 2 capital includes the Bank's eligible long term debt and revaluation reserve. Tier 3 consists of subordinated bonds, issued for covering market risks.

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 tolar	2005	2004
Foreign currency guarantees		
• Short-term	54,473	42,138
• Long-term	58,505	51,182
Tolar guarantees		
• Short-term	38,831	46,987
• Long-term	59,242	52,551
Foreign exchange letters of credit		
• Short-term	8,528	8,210
Commitments to extend credit	275,735	235,338
	495,314	436,406
Provisions (note 35)	(12,916)	(10,555)
TOTAL	482,398	425,851

b) Capital commitments

At 31 December 2005 the Group had capital commitments in the amount of 3,799 million tolar in respect of implementation of new information technology system (note 26).

c) Movements in provisions for contingent liabilities and commitments

In millions of tolar	2005	2004
Balance at 1 January	10,555	5,601
Exchange difference on opening balance of subsidiaries	10	(53)
Acquisition of subsidiaries	435	-
Additional provisions charged to Income Statement (note 9)	1,916	4,572
Other	-	435
Balance at 31 December	12,916	10,555

d) Assets pledged

In millions of tolar	Asset		Related liability	
	2005	2004	2005	2004
Investment securities (note 19)	87,763	63,044	87,577	58,122
Trading securities (note 16)	380	432	417	401
Leasing receivables	823	1,617	823	1,617
Factoring	-	2,091	-	1,576
TOTAL	88,966	67,184	88,817	61,716

e) Operating lease commitments

The future minimum lease payments under non cancellable building operating leases are as follows:

In millions of tolar	2005	2004
Not later than one year	447	456
Later than one year and not later than five years	1,578	1,414
Later than five years	723	574
TOTAL	2,748	2,444

43. Funds managed on behalf of third parties

The Group manages assets totalling 479,476 million tolar (2004: 290,765 million tolar) 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:

Type of related party	In millions of tolar	Management Board and key management personnel		Shareholders		Supervisory Board		Associated companies	
		2005	2004	2005	2004	2005	2004	2005	2004
Loans issued:									
Loans outstanding at 1 January		571	566	106,295	89,417	8	1	4,092	3,118
Loans issued during the year		313	186	151,031	128,001	17	9	38,789	12,381
Loan repayments during the year		(70)	(181)	(143,546)	(111,123)	(8)	(2)	(32,141)	(11,407)
Loans outstanding at 31 December		814	571	113,780	106,295	17	8	10,740	4,092
Interest income earned		37	31	3,409	4,690	-	-	157	525
Impairment provisions		-	-	(1,952)	(961)	-	-	(7)	(126)
Loans received:									
Loans outstanding at 1 January		-	-	25,686	37,290	-	-	1,570	1,429
Loans received during the year		-	-	6,832	9,452	-	-	3,134	283
Loan repayments during the year		-	-	(2,698)	(21,056)	-	-	(1,420)	(142)
Loans outstanding at 31 December		-	-	29,820	25,686	-	-	3,284	1,570
Interest expense		-	-	261	1,087	-	-	36	52
Deposits:									
Deposits at 1 January		-	-	1,008	988	-	-	8,923	8,666
New deposits		-	-	1,387,824	520,403	-	-	130,546	175,837
Repayments		-	-	(1,385,155)	(520,383)	-	-	(131,272)	(175,580)
Deposits at 31 December		-	-	3,677	1,008	-	-	8,197	8,923
Interest income earned		-	-	140	49	-	-	185	150
Impairment provisions		-	-	-	-	-	-	(144)	-
Deposits received:									
Deposits at 1 January		871	782	80,441	82,519	10	10	5,092	10,098
Deposits received during the year		1,887	2,143	1,408,263	1,659,982	3	39	190,656	249,717
Deposits repaid during the year		(1,687)	(2,054)	(1,382,658)	(1,662,060)	(13)	(39)	(189,812)	(254,723)
Deposits at 31 December		1,071	871	106,046	80,441	-	10	5,936	5,092
Interest expense		27	18	1,454	4,461	-	-	208	143
Securities issued:									
Securities issued at 31 December		-	-	39,895	42,374	-	-	6,289	332
Interest expense		-	-	2,893	2,868	-	-	153	60
Guarantees issued									
		-	-	13,981	30,574	-	-	800	377
Fee income									
		-	-	323	487	-	-	127	59
Fee expense									
		-	-	81	101	-	-	18	23

Key management compensation

Management Board member and other key managers

In millions of tolar	2005	2004
Salaries and other short term benefits	3,089	2,769
Long term benefits		
• post employment benefits	246	212
• jubilee bonus	9	1
Remuneration	886	662
TOTAL	4,230	3,644

45.
→ Subsidiaries

The subsidiaries are:

In millions of tolar	Nature of Business	Country of Incorporation	Percentage Interest	
			Ownership interest	Voting power held
Banka Domžale d.d., Domžale	Banking	Republic of Slovenia	65.98	65.98
FIN-DO d.o.o., Domžale	Finance	Republic of Slovenia	100	100
Koroška banka d.d., Slovenj Gradec	Banking	Republic of Slovenia	62.54	62.54
Banka Zasavje d.d., Trbovlje	Banking	Republic of Slovenia	70.80	70.80
LHB Internationale Handelsbank AG, Frankfurt/Main	Banking	Germany	56.01	56.01
LHB Banka Banja Luka AD, Banja Luka	Banking	Republic of Bosnia and Herzegovina	63.49	63.49
LHB Immobilien GmbH, Frankfurt/Main	Property	Germany	100	100
LHB Finance d.o.o., Ljubljana	Finance	Republic of 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
LHB Banka AD, Beograd	Banking	Union of Serbia and Montenegro	66.95	66.95
Texiba d.o.o., Beograd	Trading	Union of Serbia and Montenegro	100	100
BTB AD, Beograd	Property	Union of Serbia and Montenegro	100	100
Plan a.d., Banja Luka	Planning, projecting	Republic of Bosnia and Herzegovina	81.30	81.30
Tutunska Banka AD, Skopje	Banking	Republic of Macedonia	74.19	78.22
Tutunskabroker AD, Skopje	Finance	Republic of Macedonia	100	100
CBS Bank d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	100	100
Montenegrobanka AD, Podgorica	Banking	Union of Serbia and Montenegro	91.52	91.52
Razvojna banka A.D., Banja Luka	Banking	Republic of Bosnia and Herzegovina	92.42	92.42
Tuzlanska banka d.d. Tuzla	Banking	Republic of Bosnia and Herzegovina	83.54	83.54
Continental banka a.d., Novi sad	Banking	Union of Serbia and Montenegro	99.50	99.50
Conet a.d., Novi Sad	Telecommunications	Union of Serbia and Montenegro	83.68	83.68
Convst a.d., Novi Sad	Finance	Union of Serbia and Montenegro	100	100
Euromarket Banka A.D., Podgorica	Banking	Union of Serbia and Montenegro	80.29	80.29
LB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
LB Leasing d.o.o., Beograd	Finance	Republic of Slovenia	100	100
NLB Leasing Murska Sobota d.o.o., Murska Sobota	Finance	Republic of Slovenia	100	100
CBS Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	100	100
Optima Leasing d.o.o. Zagreb	Finance	Republic of Croatia	75.1	75.1
LB Leasing d.o.o. Podgorica	Finance	Union of Serbia and Montenegro	100	100
NLB Leasing d.o.o., Maribor	Finance	Republic of Slovenia	100	100
LB Leasing Koper d.o.o., Koper	Finance	Republic of Slovenia	100	100
LB Maksima d.o.o., Ljubljana	Investment management	Republic of Slovenia	100	100
NLB Leasing Velenje d.o.o., Velenje	Finance	Republic of Slovenia	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	100	100
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 InterFinanz d.o.o., Beograd	Finance	Union of Serbia and Montenegro	100	100
NLB Factoring, a.s., Ostrava	Finance	Czech Republic	100	100
NLB Factor s.r.o., Bratislava	Finance	Slovak Republic	100	100
NLB Propria d.o.o., Ljubljana	Property	Republic of Slovenia	100	100
Golf Arboretum d.o.o, Volčji potok	Sport and catering trade	Republic of Slovenia	50.6	50.6
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	100	100
CBS Invest d.o.o., Sarajevo	Property	Republic of Bosnia and Herzegovina	100	100
Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	100	100
Slovenska investicijska Banka d.d., Ljubljana	Banking	Republic of Slovenia	80.78	80.78

Ownership interest and voting power held do not include own shares.

46.
→ Currency risk

The amount of consolidated assets and liabilities denominated in tolar and in foreign currency as at 31 December 2005 is analysed below:

In millions of tolar	Tolars	EUR	USD	Other	Total
ASSETS					
Cash and balances with the Central Bank	64,585	52,184	1,066	13,203	131,038
Placements with, and loans to banks	98,574	85,344	26,085	13,540	223,543
Securities at fair value through profit or loss	111,680	36,618	19,409	3,630	171,337
Loans and advances to customers	564,499	970,505	39,896	83,282	1,658,182
Investment securities	308,294	250,046	14,964	16,074	589,378
Pledged assets	380	29,470	-	-	29,850
Investment property	4,598	508	-	985	6,091
Investments in associated companies and joint ventures	11,302	2,295	-	474	14,071
Current income tax assets	721	269	-	105	1,095
Deferred tax assets	294	42	-	214	550
Other assets	9,783	6,978	1,631	1,684	20,076
Accrued income and deferred expenses	11,391	17,045	1,196	1,030	30,662
Property and equipment	45,134	15,372	-	8,834	69,340
Intangible assets	18,545	484	-	200	19,229
Non-current assets held for sale	1,028	298	-	1,012	2,338
TOTAL ASSETS	1,250,808	1,467,458	104,247	144,267	2,966,780
LIABILITIES					
Deposits from banks	13,888	135,004	13,968	3,673	166,533
Borrowings from banks	1,677	599,124	23,033	32,966	656,800
Deposits from other customers	900,625	561,512	51,564	59,761	1,573,462
Borrowings from other customers	3,721	79,717	2,663	1,090	87,191
Debt securities	81,978	9,512	111	-	91,601
Current income tax liabilities	442	38	-	293	773
Deferred tax liabilities	10,268	76	-	133	10,477
Other liabilities	16,012	7,404	1,988	4,290	29,694
Accruals and deferred income	6,419	6,672	277	919	14,287
Provisions for liabilities and charges	11,344	6,499	216	2,852	20,911
Subordinated liabilities	10,529	89,841	3,345	-	103,715
Minority interests	11,529	12,484	-	5,660	29,673
Share capital	15,364	-	-	-	15,364
Share premium	12,476	-	-	-	12,476
Reserves	140,530	6,215	-	7,078	153,823
TOTAL LIABILITIES AND EQUITY	1,236,802	1,514,098	97,165	118,715	2,966,780
NET BALANCE SHEET POSITION					
Derivatives	(121,439)	141,847	(8,050)	(11,656)	702
As at 31 December 2004					
TOTAL ASSETS	1,206,220	1,012,524	77,616	93,418	2,389,778
TOTAL LIABILITIES AND EQUITY	1,173,813	1,058,962	75,421	81,582	2,389,778
NET BALANCE SHEET POSITION					
Derivatives	(94,925)	106,323	(5,494)	(6,754)	(850)

47.
→ Liquidity risk

The amount of consolidated assets and liabilities analysed over the remaining period at 31 December 2005 to the contractual maturity date is as follows:

In millions of tolar	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	131,038	-	-	-	-	-	131,038
Placements with, and loans to banks	68,655	17,513	23,979	111,529	1,867	-	223,543
Securities at fair value through profit or loss	169,078	2,019	8	232	-	-	171,337
Loans and advances to customers	95,520	149,790	487,703	607,824	317,345	-	1,658,182
Investment securities	137,448	198,733	19,981	148,117	85,099	-	589,378
Pledged assets	380	-	2,398	12,012	15,060	-	29,850
Investment property	-	-	-	2,796	3,295	-	6,091
Investments in associated companies and joint ventures	-	-	-	-	-	14,071	14,071
Current income tax assets	-	1,095	-	-	-	-	1,095
Deferred tax assets	-	-	-	550	-	-	550
Other assets	15,395	562	3,907	212	-	-	20,076
Accrued income and deferred expenses	3,402	2,987	10,663	387	13,223	-	30,662
Property and equipment	-	-	-	4,075	-	65,265	69,340
Intangible assets	-	-	-	158	-	19,071	19,229
Non-current assets held for sale	257	-	2,081	-	-	-	2,338
TOTAL ASSETS	621,173	372,699	550,720	887,892	435,889	98,407	2,966,780
LIABILITIES							
Deposits from banks	85,513	46,148	34,826	46	-	-	166,533
Borrowings from banks	43,980	68,993	133,668	375,234	34,925	-	656,800
Deposits from other customers	897,708	237,640	335,671	90,805	11,638	-	1,573,462
Borrowings from other customers	4,016	11,727	34,983	35,581	884	-	87,191
Debt securities	161	7	15,481	34,442	41,510	-	91,601
Current income tax liabilities	-	-	773	-	-	-	773
Deferred tax liabilities	-	-	-	10,477	-	-	10,477
Other liabilities	23,439	2,841	3,296	118	-	-	29,694
Accruals and deferred income	2,717	2,148	9,203	219	-	-	14,287
Provisions for liabilities and charges	949	288	878	15,044	3,752	-	20,911
Subordinated liabilities	-	-	-	3,345	100,370	-	103,715
TOTAL LIABILITIES	1,058,483	369,792	568,779	565,311	193,079	-	2,755,444
NET LIQUIDITY GAP	(437,310)	2,907	(18,059)	322,581	242,810	98,407	211,336
As at 31 December 2004							
TOTAL ASSETS	489,547	308,459	458,145	734,672	300,531	98,424	2,389,778
TOTAL LIABILITIES	785,094	431,731	476,307	369,561	131,785	-	2,194,478
NET LIQUIDITY GAP	(295,547)	(123,272)	(18,162)	365,111	168,746	98,424	195,300

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 2005 is set out below:

In millions of tolar	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	131,038	73,216	57,822	57,822	-	-	-
Placements with, and loans to banks	223,543	453	223,090	156,266	31,441	29,158	6,225
Securities at fair value through profit or loss	171,337	23,460	147,877	145,858	2,019	-	-
Loans and advances to customers	1,658,182	6,508	1,651,674	509,589	382,091	399,338	360,656
Investment securities	589,378	6,685	582,693	205,254	201,099	66,166	110,174
Pledged assets	29,850	380	29,470	11,759	10,904	428	6,379
Investment property	6,091	6,091	-	-	-	-	-
Investments in associated companies and joint ventures	14,071	14,071	-	-	-	-	-
Current income tax assets	1,095	1,095	-	-	-	-	-
Deferred tax assets	550	550	-	-	-	-	-
Other assets	20,076	19,590	486	472	-	14	-
Accrued income and deferred expenses	30,662	30,662	-	-	-	-	-
Property and equipment	69,340	69,340	-	-	-	-	-
Intangible assets	19,229	19,229	-	-	-	-	-
Non-current assets held for sale	2,338	2,338	-	-	-	-	-
TOTAL ASSETS	2,966,780	273,668	2,693,112	1,087,020	627,554	495,104	483,434
LIABILITIES							
Deposits from banks	166,533	592	165,941	64,567	75,843	25,519	12
Borrowings from banks	656,800	-	656,800	92,865	355,627	201,896	6,412
Deposits from other customers	1,573,462	9,098	1,564,364	1,188,900	195,557	145,271	34,636
Borrowings from other customers	87,191	-	87,191	4,963	29,189	46,668	6,371
Debt securities	91,601	-	91,601	23,509	8	10,883	57,201
Current income tax liabilities	773	773	-	-	-	-	-
Deferred tax liabilities	10,477	10,477	-	-	-	-	-
Other liabilities	29,694	29,694	-	-	-	-	-
Accruals and deferred income	14,287	14,287	-	-	-	-	-
Provisions for liabilities and charges	20,911	20,911	-	-	-	-	-
Subordinated liabilities	103,715	-	103,715	-	67,000	21,536	15,179
TOTAL LIABILITIES	2,755,444	85,832	2,669,612	1,374,804	723,224	451,773	119,811
ON BALANCE SHEET INTEREST SENSITIVITY GAP	211,336	187,836	23,500	(287,784)	(95,670)	43,331	363,623

The period of notice required to change interest rates at 31 December 2004 is set out below:

In millions of tolar	Non interest bearing		Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	Over 1 year
	Total						
ASSETS							
Cash and balances with the Central Bank	75.372	33.262	42.110	42.110	-	-	-
Placements with, and loans to banks	170.913	1.577	169.336	116.596	29.735	19.096	3.909
Securities at fair value through profit or loss	135.190	18.705	116.485	112.606	1.572	2.307	-
Loans and advances to customers	1.274.790	7.215	1.267.575	459.530	293.066	276.762	238.217
Investment securities	604.604	9.369	595.235	262.006	224.322	34.592	74.315
Pledged assets	432	432	-	-	-	-	-
Investment property	4.046	4.046	-	-	-	-	-
Investments in associated companies and joint ventures	13.632	13.632	-	-	-	-	-
Current income tax assets	166	166	-	-	-	-	-
Deferred tax assets	102	102	-	-	-	-	-
Other assets	16.302	16.302	-	-	-	-	-
Accrued income and deferred expenses	14.829	14.829	-	-	-	-	-
Property and equipment	60.449	60.449	-	-	-	-	-
Intangible assets	18.951	18.951	-	-	-	-	-
TOTAL ASSETS	2.389.778	199.037	2.190.741	992.848	548.695	332.757	316.441
LIABILITIES							
Deposits from banks	121.151	182	120.969	65.489	15.103	40.258	119
Borrowings from banks	362.442	-	362.442	46.006	95.173	201.980	19.283
Deposits from other customers	1.389.735	4.966	1.384.769	1.070.488	200.809	97.412	16.060
Borrowings from other customers	83.738	511	83.227	4.289	51.096	25.714	2.128
Debt securities	93.919	-	93.919	38.280	3.921	10.216	41.502
Current income tax liabilities	2.147	2.147	-	-	-	-	-
Deferred tax liabilities	12.450	12.450	-	-	-	-	-
Other liabilities	26.983	26.983	-	-	-	-	-
Accruals and deferred income	12.063	12.063	-	-	-	-	-
Provisions for liabilities and charges	16.860	16.860	-	-	-	-	-
Subordinated liabilities	72.990	-	72.990	-	36.290	21.534	15.166
TOTAL LIABILITIES	2.194.478	76.162	2.118.316	1.224.552	402.392	397.114	94.258
ON BALANCE SHEET INTEREST SENSITIVITY GAP	195.300	122.875	72.425	(231.704)	146.303	(64.357)	222.183

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 (EIR) for monetary financial instruments are as follows:

In %	2005		2004	
	Tolars	Foreign currency	Tolars	Foreign currency
ASSETS				
Cash and balances with the Central Bank	0.81	-	0.84	-
Placements with, and loans to banks	3.58	3.14	5.53	3.65
Securities held for trading	5.42	3.12	3.03	2.59
Loans and advances to customers	10.66	3.31	11.95	3.10
Investment securities	6.16	1.83	7.75	1.47
Other assets	3.00	-	0.62	-
LIABILITIES				
Deposits from banks	3.85	2.00	4.98	1.08
Borrowings from banks	0.55	2.10	2.75	2.25
Deposits from other customers	2.65	1.00	3.53	0.75
Borrowings from other customers	4.70	1.33	7.77	1.13
Debt securities	8.31	0.00	8.33	0.00
Other liabilities	0.98	-	0.62	-
Subordinated liabilities	6.66	3.65	6.96	3.78

49. Segmental analysis

a) Business segments

Year ended 31 December 2005

In millions of tolar	Banking	Leasing	Trade finance	Asset management	Other (unallocated)	Eliminations	Total
Total revenues	173,664	6,594	6,891	1,496	2,531	(8,267)	182,909
• External revenues	166,976	6,050	6,891	1,486	1,506	-	182,909
• Revenues from other segments	6,688	544	-	10	1,025	(8,267)	-
Impairment losses	12,312	580	1,085	-	-	-	13,977
Profit from operations	21,211	1,013	1,808	542	(144)	-	24,430
Share of profits of associated companies and joint ventures	900	-	101	-	146	-	1,147
Profit before tax							25,577
Income tax expense							(5,781)
Profit after tax							19,796
Minority interest							(2,823)
Net profit							16,973
Segment assets	2,759,921	82,773	96,290	1,309	12,416	-	2,952,709
Investments in associated companies and joint ventures	11,696	-	434	-	1,941	-	14,071
Total assets	2,771,617	82,773	96,724	1,309	14,357	-	2,966,780
Total liabilities	2,654,239	31,712	64,855	273	4,365	-	2,755,444
Shareholders' equity and minority interest							211,336
Other segment items							
Capital expenditure	10,786	12,966	73	69	129	-	24,023
Depreciation and amortization	8,776	408	118	23	140	-	9,465

The Group's operations can be divided into four main business segments:

- Banking
- Trade finance
- Leasing
- Asset management

Other operations of the Group comprise insurance and support activities (providing services relating to card and ATM processing as well as POS terminals, managing the Group's real estate, maintaining its real estate and equipment, providing bookkeeping services, catering and tourism).

This structure of business segments is based on the Group's system of internal financial reporting to the board of directors. Transactions between the business segments are on normal commercial terms and conditions. The Group's aggregate share of the result of associates and the aggregate investments in those associates are disclosed by reportable segments.

Year ended 31 December 2004

In millions of tolar	Banking	Leasing	Trade finance	Asset management	Other (unallocated)	Eliminations	Total
Total revenues	163,749	5,145	6,147	920	4,190	(7,950)	172,200
• External revenues	158,960	5,145	5,629	910	1,557	-	172,200
• Revenues from other segments	4,789	-	518	10	2,633	(7,950)	-
Impairment losses	16,438	514	1,573	(9)	3	-	18,519
Profit from operations	18,452	825	1,413	(38)	(85)	-	20,567
Share of profits of associated companies and joint ventures	1,913	-	81	-	160	-	2,154
Profit before tax							22,721
Income tax expense							(6,401)
Profit after tax							16,320
Minority interest							(2,677)
Net profit							13,643
Segment assets	2,238,995	49,324	72,856	2,496	12,475	-	2,376,146
Investments in associated companies and joint ventures	12,457	-	407	-	768	-	13,632
Total assets	2,251,453	49,324	73,263	2,496	13,243	-	2,389,778
Total liabilities	2,119,676	23,027	45,929	800	5,045	-	2,194,478
Shareholders' equity and minority interest							195,300
Other segment items							
Capital expenditure	13,126	5,153	186	87	120	-	18,672
Depreciation and amortization	8,132	395	94	14	132	-	8,767

b) Geographical segments

Year ended 31 December 2005

In millions of tolar	Slovenia	South East Europe*	West Europe**	Other (unallocated)	Total
Total revenues	150,302	24,022	16,852	(8,267)	182,909
• External revenues	142,360	23,697	16,852	-	182,909
• Revenues from other segments	7,942	325	-	(8,267)	-
Impairment losses	9,236	2,741	2,000	-	13,977
Profit from operations	18,015	4,179	2,236	-	24,430
Share of profits of associated companies and joint ventures	921	51	175	-	1,147
Profit before tax					25,577
Income tax expense					(5,781)
Profit after tax					19,796
Minority interest					(2,823)
Net profit					16,973
Segment assets	2,338,371	287,965	326,373	-	2,952,709
Investments in associated companies and joint ventures	11,302	567	2,202	-	14,071
Total assets	2,349,674	288,532	328,574	-	2,966,780
Total liabilities	2,247,585	221,247	286,612	-	2,755,444
Shareholders' equity and minority interest					211,336
Off balance sheet	389,509	54,595	38,294	-	482,398
Capital expenditure	22,230	971	822	-	24,023

* Ex Yugoslav republics, Bulgaria

** Germany, Switzerland, Austria, Czech Republic, Slovak Republic, Italy

Year ended 31 December 2004

In millions of tolar	Slovenia	South East Europe*	West Europe**	Other (unallocated)	Total
Total revenues	151,003	14,220	14,927	(7,950)	172,200
• External revenues	144,595	13,543	14,062	-	172,200
• Revenues from other segments	6,408	677	865	(7,950)	-
Impairment losses	16,114	1,176	1,228	-	18,519
Profit from operations	16,079	3,436	1,052	-	20,567
Share of profits of associated companies and joint ventures	2,050	3	101	-	2,154
Profit before tax					22,721
Income tax expense					(6,401)
Profit after tax					16,320
Minority interest					(2,677)
Net profit					13,643
Segment assets	1,960,161	127,987	287,997	-	2,376,146
Investments in associated companies and joint ventures	10,974	522	2,136	-	13,632
Total assets	1,971,136	128,509	290,133	-	2,389,778
Total liabilities	1,863,633	87,456	243,390	-	2,194,478
Shareholders' equity and minority interest					195,300
Off balance sheet	366,928	15,216	43,707	-	425,851
Capital expenditure	16,091	992	1,589	-	18,672

Geographical analysis includes the division between geographical segments according to the country in which individual Group companies are located.

* Ex Yugoslav republics, Bulgaria

** Germany, Switzerland, Austria, Czech Republic, Slovak Republic, Italy

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50.
→ Reconciliation of net profit and equity from Slovenian
Accounting Standards (SAS) to International Financial
Reporting Standards (IFRS)

In millions of tolar	Note	2005	2004
RECONCILIATION OF NET INCOME			
Net profit SAS		11,913	8,666
Provisions for loan impairment	b)	5,483	(2,062)
Fair value of financial instruments	a)	(2,101)	111
Goodwill/Excess	d)	1,736	1,037
General banking risks provision	c)	(456)	2,819
Deferred tax	f)	(194)	2,925
Employee benefits	e)	26	33
Other	h)	566	114
Net profit IFRS - Equity holders of NLB Group		16,973	13,643
RECONCILIATION OF EQUITY			
Equity SAS		126,804	117,174
Provisions for loan impairment	b)	48,412	41,029
Deferred tax	f)	(11,732)	(10,635)
General banking risks provisions	c)	11,544	11,768
Fair value of financial instruments	a)	9,802	13,049
Employee benefits	e)	(2,812)	(2,716)
Treasury shares	g)	(491)	(491)
Goodwill/Excess	d)	(425)	(1,027)
Other	h)	561	19
Equity IFRS - Equity holders of NLB Group		181,663	168,170

a) 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.

b) Provisions for loan impairment

SAS financial statements include provisions for losses on loans according to the grading group of the loan or client and in accordance with percentages prescribed by the Bank of Slovenia in the Decree on the Classification of Balance Sheet and Off - Balance Sheet Asset of Banks and Savings Banks. In the IFRS financial statements impairment loss is recognised when it is probable that the Group will not be able to collect all amounts due according to contractual terms of loans.

c) General banking risks provision

Under SAS general banking provisions are charged to the income statement and presented as a separate item on the liability side of the balance sheet.

d) Goodwill/excess

Under IFRS goodwill, which arises on acquisition of a subsidiary, is tested for impairment, while under SAS it is amortised to the income statement over a period of five years.

Under IFRS excess of acquirer's interest in the net fair value of acquirer's net assets over cost is recognised immediately in profit, while under SAS it is amortised over a period of five years.

e) Employee benefits

IFRS financial statements include provisions, which are established for other long-term employee benefits such as jubilee bonuses, retirement compensation and other long service benefits. In SAS financial statements provisions for other long-term employee benefits are not recognised.

f) Deferred tax

Deferred tax relates to fair value of financial instruments, provisions for loan impairment and employee benefits.

g) Treasury shares

Under SAS treasury shares are presented as a separate item among assets while under IFRS they are netted against the share premium reserves.

h) Other

Other includes foreign exchange gains on net investments, rewards and the reversal of depreciation of investment property.

→ Income statement
(parent bank)

In millions of tolar	2005	2004
Interest and similar income	90,925	92,134
Interest expense and similar charges	(44,097)	(45,044)
NET INTEREST INCOME	46,828	47,090
Fees and commissions income	25,545	23,630
Fees and commissions expense	(6,104)	(5,643)
NET FEES AND COMMISSIONS	19,441	17,987
Gains arising from securities held for trading (net)	1,860	5,090
Gains arising from investment securities (net)	(131)	165
Gains arising from dealing in foreign currencies (net)	2,201	2,176
(Losses)/Gains arising from derivatives (net)	(2,235)	(1,372)
Foreign exchange gains/(losses) (net)	659	1,274
Other operating income	6,007	5,837
OPERATING INCOME	74,630	78,247
Impairment losses	(6,189)	(15,556)
General administrative expenses	(41,457)	(40,928)
Other operating expenses	(11,760)	(8,511)
PROFIT BEFORE TAX	15,224	13,252
Income tax expense	(3,821)	(3,942)
NET PROFIT FOR THE PERIOD	11,403	9,310

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→ Balance sheet as at
31 december 2005
(parent bank)

In millions of tolar	31.12.2005	31.12.2004
ASSETS		
Cash and balances with the Central Bank	67,092	50,942
Placements with, and loans to banks	219,288	188,273
Securities at fair value through profit or loss	169,275	132,346
Derivatives	2,102	1,785
Loans and advances to customers	1,155,561	919,321
Investment securities	435,714	462,760
Pledged assets	29,850	432
Investment property	250	256
Investments in associated companies and joint ventures	6,765	6,607
Investments in subsidiaries	52,407	21,805
Current income tax assets	721	-
Other assets	13,401	8,308
Accrued income and deferred expenses	13,189	11,876
Property and equipment	35,304	37,843
Intangible assets	17,657	17,531
Non-current assets held for sale	743	-
TOTAL ASSETS	2,219,319	1,860,085
LIABILITIES		
Deposits from banks	117,035	85,202
Borrowings from banks	479,740	230,065
Deposits from other customers	1,197,292	1,153,472
Borrowings from other customers	24,918	35,119
Derivatives	2,361	3,486
Debt securities	98,013	93,720
Current income tax liabilities	37	1,669
Deferred tax liabilities	8,944	10,488
Other liabilities	17,404	14,493
Accruals and deferred income	10,055	9,113
Provisions for liabilities and charges	13,555	11,446
Subordinated liabilities	104,323	73,201
TOTAL LIABILITIES	2,073,677	1,721,474
SHAREHOLDERS' EQUITY		
Share capital	15,364	15,364
Share premium	12,710	12,710
Reserves	13,475	15,096
Retained earnings	104,093	95,441
TOTAL SHAREHOLDERS' EQUITY	145,642	138,611
TOTAL EQUITY AND LIABILITIES	2,219,319	1,860,085