€50,000,000 Floating Rate Perpetual Notes

issued by, but with limited recourse to,

ING BANK N.V.

pursuant to its €50,000,000,000 Global Issuance Programme

for the sole purpose of

financing a subordinated loan to

Nova Kreditna banka Maribor d.d.

(registered in Slovenia)

The €50,000,000 Floating Rate Perpetual Notes (the "**Notes**") will be issued by ING Bank N.V. (the "**Issuer**") under the Issuer's €50,000,000,000 Global Issuance Programme (the "**Programme**") for the sole purpose of financing a €50,000,000 subordinated loan (the "**Subordinated Loan**") to Nova Kreditna banka Maribor d.d ("**NKBM**"). Interest on the Notes is payable quarterly in arrear on the Interest Payment Dates falling on 5 January, 5 April, 5 July and 5 October in each year. The Notes will be issued in the denomination of €50,000 subject to the Minimum Trading Size. See "*Final Terms of the Notes*".

The Notes are perpetual but shall be redeemed in whole, but not in part, at any time, by the Issuer giving notice to the holders of the Notes (the "**Noteholders**"), at the principal amount thereof together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof, upon the Issuer receiving notice that NKBM has repaid the Subordinated Loan on the grounds and in the circumstances set out in the subordinated loan agreement dated 2 October 2006 between the Issuer as lender and NKBM as borrower relating to the Subordinated Loan (the "**Subordinated Loan Agreement**").

The Notes will constitute the obligation of the Issuer to apply an amount equal to the proceeds from the issue of the Notes solely for the purpose of financing the Subordinated Loan to NKBM pursuant to the terms of the Subordinated Loan Agreement. The Issuer will only account to the Noteholders for amounts payable under the Notes which are equivalent to those (if any) received from NKBM under the Subordinated Loan Agreement. The Subordinated Loan will constitute the direct, unconditional and unsecured obligation of NKBM.

The Notes will be issued in registered form. The Notes will be represented by a permanent global Note (the "**Reg. S Global Note**") in fully registered form, without interest coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V. 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium ("**Euroclear**") and Clearstream Banking, société anonyme 42, Avenue JF Kennedy, L-1855 Luxembourg ("**Clearstream, Luxembourg**") on or about 5 October (the "**Closing Date**"). The Reg. S Global Note will be registered in the name of the depositary or its nominee. Interests in the Reg. S Global Note will only be exchangeable in accordance with its terms for Notes in definitive form in limited circumstances.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement. The Issuer will have no other financial obligation under the Notes. **Noteholders are deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of NKBM in respect of the financial servicing of the Notes.**

Application has been made to the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) (the "**AFM**") in the Netherlands in its capacity as competent authority under the Act on the Supervision of the Securities Trade 1995 (*Wet toezicht effectenverkeer 1995* / Wte 1995), for the approval of this Prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). The Issuer has requested the AFM to provide the competent authority in Luxembourg (the *Commission de Surveillance du Secteur Financier*) with a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive. Application has also been made for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been "listed" on the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive 93/22/EEC.

The Notes and all related contractual documentation will be governed by, and construed in accordance with, the laws of England. The place of jurisdiction will be the courts of England.

FOR A DISCUSSION OF CERTAIN ISSUES THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE NOTES, SEE "RISK FACTORS".

Joint Lead Managers and Bookrunners

ING Wholesale Banking **Morgan Stanley**

The date of this Prospectus is 2 October 2006.

This Prospectus has been prepared by the Issuer and NKBM in connection with an application for the listing of the Notes on the Luxembourg Stock Exchange. The Issuer assumes responsibility for the information contained in this document. The Issuer, having taken all reasonable care to ensure that such is the case, confirms that the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The information contained in the sections entitled "Risk Factors", "Recent Developments", "Nova Kreditna banka Maribor d.d.", Management and Employees", "Summary Financial Information of NKBM", "The Banking Sector in Slovenia", "Taxation – Slovenia", "General Information – No Material Adverse Change", "General Information – Litigation" and the financial statements of NKBM set out from page F-2 of this Prospectus has been provided by NKBM and has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information provided by NKBM, no facts have been omitted which would render the reproduced information inaccurate or misleading.

*The statistical information and other data contained in the section "The Banking Sector in Slovenia" has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Slovenia, including the Bank of Slovenia ("**BoS**"), and from other government or mass media sources) and NKBM accepts responsibility for accurately extracting and reproducing such data but accepts no further responsibility in respect of such information.*

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of NKBM and its own determination of the suitability of such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law.

Persons into whose possession this Prospectus comes are required by the Issuer and NKBM to inform themselves about and to observe any such restrictions. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful.

Neither the Issuer nor NKBM or any of their respective affiliates or agents makes any representation about the legality of the purchase of the Notes by an investor under applicable investment or similar laws. Each prospective investor is advised to consult its own counsel and business advisor as to legal, tax, business, financial and related matters concerning the purchase of the Notes. The contents of this Prospectus are not to be construed as legal, business or tax advice.

Each prospective investor in the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required of it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither NKBM or the Issuer or any of their respective affiliates or agents shall have any responsibility therefor.

No person is authorised to provide any information or to make any representation not contained in this document. Any such representation or information should not be relied upon as having been authorised by NKBM or the Issuer.

Neither the delivery of this document nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of NKBM since the date of this document.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and constructed in conjunction with the sections entitled "Chapter 1: Information relating to the Global Issuance Programme", "Chapter 2: Terms and Conditions of the Medium Term Notes" and "Chapter 5: Terms and Conditions of Credit Linked Notes" in the prospectus dated 29 September 2006 (the "**Base Prospectus**") relating to the €50,000,000,000 Global Issuance Programme of the Issuer. These sections of the Base Prospectus shall be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained from the registered office of the Issuer at Amstelveenseweg 500, 1081 KL Amsterdam, The Netherlands, the website of the Luxembourg Stock Exchange (www.bourse.lu) and the website of the Issuer (www.ingderivatives.com).

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RISK FACTORS

Prior to making an investment decision prospective investors should carefully consider all of the information set forth in this document including the following risk factors. There may be other considerations over and above the risk factors set out below which should be taken into account in relation to any investment in the Notes.

Risks relating to the Bank

Competition

On 1 May 2004 Slovenia became a member of the European Union. Although Slovenia's membership of the European Union may improve NKBM's operating environment, it has intensified an already competitive market. EU accession has also made Slovenia's banking sector more attractive to foreign competitors. As the banking sector has historically been highly concentrated and dominated by the top three banks (including NKBM), certain foreign banks have offered more competitive rates for loans and deposits to gain a foothold in the market. This has put downward pressure on net interest margins, and if such margin compression continues this could negatively impact NKBM's profitability. In the event that competition continues to intensify, this could have a material adverse effect on NKBM's future financial condition and results of operations.

Previous attempts at privatisation

NKBM is wholly-owned, directly and indirectly, by the Republic of Slovenia. In May 2006, the Minister of Finance of the Republic of Slovenia announced the adoption of a privatisation plan in relation to NKBM. The plan contemplates a two step approach. The first step would involve the sale of up to 20 per cent. of the shares in NKBM to a key investor. The second stage would involve the further sale of shares through an international tender. This is not the first attempt at privatising NKBM. Although a process of privatisation was commenced in 1999, in 2002 the Government of the Republic of Slovenia announced that it was not continuing with the process.

There can be no assurance that the current privatisation plan will be adopted in the form announced by the Government.

As some of the competitors of NKBM have greater access to capital and new products than NKBM by virtue of support from strategic foreign shareholders, in the event that the current privatisation plan is not adopted and a key strategic investor does not participate in any privatisation, this may place NKBM at a competitive disadvantage. The benefits of a strategic shareholder are access to capital (for support in case of need), for expansion and development (such as credit skills, risk management, new products, systems upgrade and management). In the long term NKBM could find it difficult to defend its franchise without such support.

Fluctuations in interest rates may impact NKBM's results

NKBM's performance is also influenced by fluctuation in interest rates across Europe (with respect to net interest income and asset/liability management). The results of NKBM's banking operations are affected by NKBM's management of interest rate risk and sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and NKBM's net interest income. Interest rate risk arises as result of mismatches in the maturities of NKBM's assets and liabilities. A mismatch of interest-earning assets and interest-bearing liabilities in any given period, which tends to accompany changes in interest rates, may have a material effect on NKBM's financial condition or results of operations.

As at 31 December 2005, over 74.5 per cent. of NKBM's liabilities were short term in nature. This has resulted in a certain degree of structural asset and liability mismatches, particularly in respect of sight deposits. The management of NKBM (the "**Management**") however, believes that the majority of NKBM's sight deposits represent core and stable funding from relatively non-price sensitive customers, and at the same time, loans (which account for the majority of NKBM's assets) are re-priced every 30 days. Nonetheless, such structural mismatches do render NKBM's balance sheet susceptible to interest rate risk. Accordingly, there can be no assurance that fluctuations in interest rates will not have a material adverse effect on NKBM's financial condition or results of operations.

Non-performing loans

Due to its history as a state-owned bank, NKBM inherited a significant amount of non-performing loans from the time when NKBM underwent a government-sponsored rehabilitation programme as part of the rehabilitation programme initiated by the banking authorities in Slovenia. While NKBM believes that the risks relating to these non-performing loans are sufficiently covered by specific loan loss reserves, there can be no assurance that additional provisioning requirements will not adversely affect NKBM's profitability or constrain its credit rating.

NKBM has strict credit approval and monitoring procedures in order to limit the amount of future non-performing loans. However, there can be no assurance that its credit approval and monitoring procedures will reduce the amount of loans that become non-performing in the future, or that non-performing loans will not have a material negative impact on NKBM's operating results in future periods. In addition, a downturn in the Slovenian economy would be likely to have a negative impact on NKBM's financial condition and operating results, which could significantly increase its level of non-performing loans and require additional loan loss provisions.

Changes in the Slovenian and European regulatory framework could adversely affect NKBM's business

The NKBM Group is subject to extensive regulation and supervision by the Bank of Slovenia, the European Central Bank and the European System of Central Banks. The banking laws to which NKBM is subject govern the activities in which banks may engage, and are designed to maintain the safety and soundness of banks, as well as to limit the banks' exposure to risk. In addition, NKBM must comply with financial services laws that govern its marketing and selling practices. Any changes in how such laws and regulations are applied, or the implementation of the New Basel Capital Accord ("**Basel II**") on capital requirements for financial institutions, may have a material effect on NKBM's business and operations. As some of the banking laws and regulations affecting NKBM have only been recently adopted, the manner in which such laws and related regulations are applied to the operations of financial institutions is still evolving. No assurance can thus be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of NKBM.

Information technology systems

NKBM has been engaging in a number of projects in relation to its information technology systems and architecture. This process has given rise, and will continue to give rise, to operational risk. The most important project relates to the introduction of the euro, which will be introduced as the currency of Slovenia on 1 January 2007. To date, NKBM has met all of the milestones in relation to euro implementation prescribed by the Bank of Slovenia. NKBM's information technology and operations support are now fully euro-compliant. However, testing with other financial institutions has not yet been commenced and there can be no assurance that all necessary operational adjustments will be completed successfully. In addition, banks in the Republic of Slovenia will be required to open on 1 January 2007, thus increasing the operational risk of the changeover.

NKBM also continues to transfer its operations from its "legacy" information systems to its new *Nobis* system.

In addition, the Bank of Slovenia has obliged all banks in Slovenia to draw up their financial standards in compliance with International Financial Reporting Standards for the financial year starting on 1 January 2006. New standards have introduced changes in the calculation of specific provisions, in the treatment of some commissions as interest income, in the allowance for insurances and in the calculation of capital.

The simultaneous implementation of a number of technology projects has placed significant strain on the employees and management of NKBM and there can be no assurance that all such projects will be completed successfully, on time or to budget or that the operations of NKBM will not be affected.

Changes in law

Due to the rapid changes that Slovenian laws have undergone during recent years, NKBM may from time to time have violated, may be violating and may in the future violate, certain legal requirements, including provisions of labour, foreign exchange, customs, tax and banking regulations. NKBM believes that any such violations have not had a material adverse effect upon NKBM's activities or financial condition, but there can be no assurances that this will continue to be the case.

Risks relating to the Notes

Interest payments on the Subordinated Loan may be subject to withholding tax or other taxes

Based on the professional advice it has received, NKBM believes that interest payments to the Issuer on the Subordinated Loan will not be subject to withholding tax. However, if the withholding tax exemption does not apply, interest payments on borrowed funds made by a Slovenian entity to a non-resident legal entity are subject to Slovenian withholding tax at a rate of 25 per cent. unless another exemption or reduced rate can be applied in reliance on the relevant double taxation treaty. There can be no assurance that such an exemption will be available, in which case NKBM will be required to gross-up.

The Notes may be redeemed early if withholding tax becomes payable or the Issuer incurs certain increased costs or it becomes unlawful to allow the Subordinated Loan or the Notes to remain outstanding

In the event that NKBM is required to increase the amounts payable under the Subordinated Loan Agreement, including in the event that any tax is or becomes applicable to such payments, or the Issuer incurs increased costs reimbursable by NKBM, NKBM may repay the Subordinated Loan in whole or in part together with accrued interest at any time, and (to the extent that it has actually received the relevant funds from NKBM) the Issuer shall redeem all outstanding Notes in accordance with the terms and conditions of the Notes. See "*Subordinated Loan Agreement – Repayments*" and "*Subordinated Loan Agreement – Payments*". The Issuer may also redeem all outstanding Notes in accordance with the terms and conditions of the Notes if it is unlawful for the Issuer to allow the Subordinated Loan or the Notes or any part of them to remain outstanding.

Changes to the credit ratings of NKBM or the Republic of Slovenia may adversely affect the Notes' trading price

Any changes in the credit ratings of NKBM or the Republic of Slovenia could adversely affect the trading price of the Notes. A change in the credit rating of one or more other Slovenian corporate borrowers or banks could also adversely affect the trading price of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Payments under the Notes are limited to the amount of certain payments received by the Issuer under the Subordinated Loan Agreement

The Issuer has an obligation under the terms and conditions of the Notes to pay such amounts of principal, interest and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is limited to the amount of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement. Consequently, if NKBM fails to meet its payment obligations under the Subordinated Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal or interest or other amounts, if any.

NKBM will have the ability to incur more debt and this could increase the risks described above

NKBM may decide to incur additional debt in the future that will be senior to the Subordinated Loan Agreement. The Subordinated Loan Agreement contains no limitations on NKBM's ability to incur additional debt. If new debt is added to NKBM's current debt levels, the magnitude of the related risks described above could increase, and the foregoing factors could have an adverse effect on the ability of NKBM to pay amounts due in respect of the Subordinated Loan Agreement and, therefore, ultimately the Issuer's obligation to pay amounts due in respect of the Notes.

Noteholders have no direct recourse against NKBM

Save as otherwise expressly provided in the terms and conditions of the Notes, no proprietary or other direct interest in the Issuer's rights under or in respect of the Subordinated Loan Agreement exists for the benefit of the Noteholders. No Noteholder will have any right to enforce any provision of the Subordinated Loan Agreement or have direct recourse to NKBM as borrower.

There is no existing market for the Notes

There is no existing market for the Notes. Application has been made to for the Notes to be admitted to trading on the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market for the Notes will develop or be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

Certain features of the Notes

The terms and conditions of the Notes provide for optional redemption of the Notes by the Issuer after 5 October 2016 being the date on which a step-up in the interest rate applying to the Subordinated Loan will arise. On such optional redemption, each holder of the Notes will, at the Issuer's option, receive on a *pro rata* basis the proceeds of the sale by the Issuer of the Subordinated Loan and/or become a party to the Subordinated Loan by way of assignment (with the extent of its interest in the Subordinated Loan being determined by the Issuer) provided that in the event that the Issuer gives notice that it is exercising its rights of optional redemption, the Noteholder may direct the Issuer to assign an interest in the Subordinated Loan to such Noteholder. There can be no assurance that the proceeds of any sale of the Subordinated Loan by the Issuer will result in receipt by a holder of the full principal amount of Notes held by such holder. In addition, if the holders of the Notes become party to the Subordinated Loan, this may lead to withholding tax being payable by NKBM on payments under the Subordinated Loan and NKBM may choose to repay the Subordinated Loan.

If NKBM fails to make a payment of principal or interest under the Subordinated Loan for a period of 10 days after the due date, the Issuer may seek to sell the Subordinated Loan and pass the proceeds of such sale to the Noteholders on a *pro rata* basis. No assurance can be given that such proceeds of sale will result in the receipt by a holder of the full principal amount represented by his Notes. If the Issuer is unable to sell the Subordinated Loan within 180 days after a Termination Event Notice has been given to Noteholders, the Issuer shall transfer rights under the Subordinated Loan to each Noteholder, thereby making such Noteholder a party to the Subordinated Loan. If following the delivery of a Termination Event Notice the Issuer receives notice within five days of such delivery from a Noteholder requesting the transfer to it of rights under the Subordinated Loan, the Issuer shall act in accordance with such request subject to applicable law and reimbursement of costs relating to such transfer.

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning NKBM's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in "Risk Factors", "Recent Developments", "Nova Kreditna banka Maribor d.d." and other sections of this Prospectus. NKBM has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgement of NKBM's management (the "**Management**") but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in NKBM's forward-looking statements and from past results, performance or achievements. Although NKBM believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which NKBM has identified in this Prospectus, or if any of NKBM's underlying assumptions prove to be incomplete or incorrect, NKBM's actual results of operations may vary from those expected, estimated or projected.

These forward-looking statements speak only as of the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, each of NKBM and the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Annual and Interim Financial Information

The financial information set forth herein, has, unless otherwise indicated, been derived from the audited balance sheets and statements of income, cash flows and changes in shareholders' equity of NKBM as at and for the years ended 31 December 2005 and 2004 (the "**Annual Financial Statements**") prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the reviewed interim balance sheet and statements of income, cash flows and changes in shareholders' equity of NKBM as at and for the six months ended 30 June 2006 (the "**Interim Financial Statements**") prepared in accordance with International Accounting Standard 34, "*Interim Financial Information*". The Annual Financial Statements have been audited by NKBM's independent auditors, KPMG Slovenija, podjetje za revidiranje, d.o.o. ("**KPMG Slovenija d.o.o.**"), independent certified public accountants, located at Železna cesta 8a, 1000 Ljubljana, Slovenia, in accordance with International Standards on Auditing ("**ISA**"). The Interim Financial Statements have been reviewed but not audited. In the opinion of the Management, the Interim Financial Statements reflect all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the financial data for such period. The Annual Financial Statements, including the audit opinion of KPMG Slovenija d.o.o., and the Interim Financial Statements, including the review opinion of KPMG Slovenija d.o.o. (together with the Annual Financial Statements, the "**Financial Statements**") are set out in this Prospectus and have been included with the consent of KPMG Slovenija d.o.o.

Currency

In this Prospectus, the following currency terms are used:

- "**SIT**", "**Slovenian tolar**" or "**tolar**" means the lawful currency of Slovenia; and
- "**EUR**", "**Euro**", or "**€**" means the lawful currency of the member states of the European Union introduced at the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

Exchange Rates

The following table sets forth, for the periods indicated, the average and period-end official rates set by the BoS, in each case for the purchase of Slovenian tolar, all expressed in Slovenian tolar per euro. Translations of amounts from Slovenian tolar to euro are solely for the convenience of the reader, and NKBM has translated some financial data from Slovenian tolar into euro at the rate of SIT 239.5756 to €1.00, the official rate set by the BoS on 31 December 2005, SIT 239.7430 to €1.00, the official rate set by the BoS on 31 December 2004, SIT 239.6285 to €1.00, the official rate set by the BoS on 30 June 2006 and SIT 239.5691 to €1.00, the official rate set by the BoS on 30 June 2005. No representation is made and these translations should not be construed as representations that Slovenian tolar amounts actually represent such euro amounts or could be converted into euro at the rate indicated as of any at the dates mentioned in this Prospectus or at all.

	High	Low	Average(1)	Period End
		(Slovenian tolar per euro)		
2006(2)	239.7335	239.4009	239.5977	239.5960
2005	239.7820	239.5634	239.6371	239.5756
2004	239.8584	236.7079	238.8615	239.7430
2003	236.6903	230.3072	233.7045	236.6903
2002	230.2673	221.4470	226.2237	230.2673
2001	221.4095	211.6018	217.1851	221.4095

Notes:

(1) Calculated based on the exchange rate for the first and last days of the period and the number of days in the period.

(2) Up to and including 29 September 2006.

(3) On 11 July 2006, the exchange rate at which Slovenia will introduce the euro on 1 January 2007 was fixed at SIT 239.640 to €1.00.

USE OF PROCEEDS

The gross proceeds from the offering of the Notes, being €50,000,000, will be used by the Issuer for the sole purpose of funding the Subordinated Loan to NKBM. NKBM will receive the gross proceeds of the Subordinated Loan in the amount of €50,000,000 and will separately pay commission, fees and certain expenses in connection with the offering of approximately €641,000. As a result, the net proceeds of the Subordinated Loan available to NKBM, after payment of such commissions, fees and expenses, will be approximately €49,359,000. NKBM intends to use the proceeds of the Subordinated Loan for regulatory capital purposes.

RECENT DEVELOPMENTS

In May 2006, the Minister of Finance of the Republic of Slovenia announced the adoption of a privatisation plan in relation to NKBM, under which the state would retain a stake of 25 per cent. plus one share in NKBM. The plan contemplates a two step approach. The first stage would involve the sale of up to 20 per cent. of the shares in NKBM to a key investor, which would be selected by a public tender. The second stage would involve the further sale of shares through an international tender. The exact time frame for the implementation of the proposed NKBM privatisation is not yet clear.

Following the decision by the Slovenian Government to adopt the euro as the official currency of Slovenia as of 1 January 2007, NKBM has been implementing its action plan to adjust all its business processes, services and applications to support the adoption of the euro. During the first half of 2006, NKBM adjusted all of its applications to the euro and its information technology and operations support are fully euro-compliant. However testing with other financial institutions has not yet commenced and is scheduled for September and October 2006.

Working groups have been set up by NKBM to effect the necessary adjustments to its business strategy and services and the directors of the individual business services have begun reviewing those services that will need to be adjusted, introduced or terminated due to the changeover to the euro. The final deadline for conclusion of these activities is the end of October 2006.

NOVA KREDITNA BANKA MARIBOR d.d.

Overview

NKBM is a full service financial institution in Slovenia providing a complete range of retail, corporate and investment banking services to its clients and customers. NKBM is currently the second largest bank in Slovenia, with 87 branches, sub-branches and agencies as at 31 December 2005. The core banking business is further complemented by a variety of financial services offered by NKBM's subsidiaries and affiliates (See "*Subsidiaries and Affiliates*"). Members of the NKBM Group offer a diverse range of ancillary and subsidiary activities such as insurance, investment, mutual and pension fund portfolio management, securities dealing and trading, fund management, asset management, leasing, real estate marketing and project development, as well as trade finance, intermediation and business on behalf of third parties.

The NKBM Group had consolidated profit before tax of SIT 10,865 million (€45.35 million) for the year ended 31 December 2005 as compared to SIT 6,341 million (€26.45 million) for the year ended 31 December 2004. As at 31 December 2005 it had total assets of SIT 838,607 million (€3,500.39 million), as compared to SIT 716,837 million (€2,990.02 million) as at 31 December 2004; and total equity of SIT 60,849 million (€253.99 million) compared to SIT 55,542 million (€231.67 million) as at 31 December 2004.

For the six months ended 30 June 2006, NKBM, on a non-consolidated basis, had profit before tax of SIT 3,311 million (€13.9 million) as compared to SIT 4,831 million (€20.2 million) for the six months ended 30 June 2005. As at 30 June 2006, NKBM had total assets of SIT 780,140 million (€3,256 million) as compared to SIT 643,877 million (€2,688 million) for the six months ended 30 June 2005; and total equity of SIT 58,620 million (€244.6 million) as compared to SIT 60,336 million (€251.9 million) for the six months ended 30 June 2005.

NKBM is incorporated in Slovenia as a bank in the form of "delniška družba" (joint-stock company) with limited liability.

History

NKBM was established in 1955 under the name of Komunalna banka Maribor in the city of Maribor in the north-eastern part of Slovenia. After two further name changes, in 1978 it was amalgamated with 22 other banks to create the Ljubljanska Banka (LB) Group. In 1991 Kreditna banka Maribor became a joint stock company and a "daughter bank" within the LB group. In 1993 NKBM severed its links with the LB Group and resumed operating as an autonomous joint-stock enterprise under the name of Kreditna Banka Maribor d.d. It was then placed in government-supervised rehabilitation under the ownership and management of the state Bank Rehabilitation Agency.

In 1994, Kreditna banka Maribor was renamed Nova Kreditna banka Maribor by way of an Act of Parliament and succeeded to all the liabilities and assets of Kreditna banka Maribor d.d., other than certain liabilities incurred prior to the break-up of the former Yugoslavia. During the rehabilitation process NKBM transferred a number of bad assets, including non-performing loans, foreign exchange deposits with the National Bank of Yugoslavia, and other related liabilities to the Bank Rehabilitation Agency in exchange for long-term Republic of Slovenia bonds. NKBM successfully completed its rehabilitation programme in 1997, reverting ownership back to the government.

From 1998, the NKBM Group continued to expand and it also embarked on the privatisation process which was eventually terminated in April 2002, when the government of the Republic of Slovenia decided that it did not intend to proceed with the then current plan to sell NKBM to foreign investors.

In September 2004, the Government of the Republic of Slovenia agreed to transfer its 55 per cent. stake in Postna Banka Slovenije d.d. ("**PBS**") to NKBM, with a view to a full merger at a later date.

In 2005 NKBM adopted a resolution to merge with its brokerage company subsidiary, MBH d.o.o. *(Mariborska borznoposrednika hiša)*, which involved the transfer of all business activities of this company to NKBM. The merger was completed at the end of 2005.

In September 2005 three subsidiaries of NKBM (KBM Fineko d.o.o., KBM Invest d.o.o. and KBM Leasing d.o.o.) purchased a 76 per cent. interest in Multiconsult d.o.o. of Zagreb which is expected to increase opportunities for the Group to carry out business projects in Croatia.

In May 2006, the Minister of Finance of the Republic of Slovenia announced the adoption of a privatisation plan in relation to NKBM. See "Recent Developments".

Competition

NKBM faces considerable competition in its home market in Slovenia. There are currently 19 banks and three savings banks in Slovenia, as well as foreign banks. According to data provided by the Bank of Slovenia, NKBM had a market share of 10.3 per cent. in terms of total banking assets as at 31 December 2005, compared with a market share of 10.7 per cent. as at 31 December 2004. This made it the second largest bank in Slovenia behind Nova LB d.d. Ljubljana ("**Nova LB**"). NKBM's main competitors include Nova LB (with a market share by total assets of 31.5 per cent. as at 31 December 2005 according to Bank of Slovenia figures), ABANKA Vipa d.d., SKB Banka d.d., Banka Koper d.d., Banka Celje d.d., Gorenjska Banka d.d. and Bank Austria Creditanstalt d.d.

Following Slovenia's accession to the EU, competition mainly from foreign banks, has increased, which has placed pressure on net interest margins, particularly in the corporate sector. However NKBM benefits from a strong regional franchise and believes that its knowledge of the small and medium sized enterprise segment and its strong position in the retail segment are further competitive strengths in the local market.

Ownership

The Ministry of Finance of the Republic of Slovenia holds 90.4 per cent. of NKBM's ordinary share capital. The Republic of Slovenia holds a further 9.6 per cent. indirectly through the Capital Fund of the Republic of Slovenia and the Slovene Restitution Fund, which each hold 4.8 per cent. The Supervisory Board of NKBM consists of nine members and oversees the activity of NKBM's Management Board but does not participate in the day-to-day operation of NKBM.

Strategy

In April 2004, NKBM adopted a formal strategy for the next four years. Its strategic objective is for NKBM to become the cornerstone of a strong Slovenian banking group, offering a full range of financial products and services to retail clients and small and medium-sized enterprises.

In the retail sector, the acquisition of a majority stake in PBS has given NKBM access to the most extensive banking network in Slovenia. NKBM believes that it will be able to increase its retail market share through implementing a cross-selling strategy, given that under half of its retail customers currently make use of its product offerings in each of the banking, investment funds and insurance sectors.

NKBM also expects to benefit from a number of synergies through the acquisition of PBS, which include joint marketing and client relationship management initiatives. Further efficiencies may, potentially, be realised through reductions in branch overlap.

Given the importance of the customer/branch relationship in Slovenia, NKBM believes that its extensive branch network, coupled with the strong brand names of both NKBM and PBS, will help it strengthen its competitive position and achieve market share growth in the retail sector. It also intends to focus on consumer finance activities, where it can not only benefit from commissions on providing credit through sellers of domestic appliances to consumers who may not be existing customers of NKBM, but can also earn premiums from insuring such consumer loans through its insurance affiliate.

In the corporate sector, NKBM's growth objectives will be focused on the small and medium-sized enterprise ("**SME**") sector, although NKBM will seek to maintain its existing position with regard to larger corporates.

As regards international operations, NKBM intends to benefit from the export-led expansion of its existing business customers as they expand into neighbouring markets, particularly those of other EU countries (and to a lesser extent the former Yugoslavia), by providing trade finance, letters of credit and guarantees.

Business of NKBM

Overview

NKBM is a fully licensed bank and provides a complete range of retail, corporate and investment banking services to its clients and customers in both the corporate and retail sectors. Its core banking business is further complemented by a variety of financial services offered by NKBM's subsidiaries and affiliates such as insurance and pension fund management. NKBM's most important investment is its 49.96 per cent. shareholding in Zavarovalnica Maribor d.d. ("ZM"), Slovenia's second largest insurance company.

The table below sets out the total loans and deposits of NKBM as at 31 December 2004 and 2005, showing the breakdown in each case between the corporate and the retail sector.

	As at 31 December	
	2005	**2004**
	(SIT million)	
Loans		
Corporate customers	279,438	248,750
Retail customers	137,500	111,119
Total	**416,938**	**359,869**
Deposits		
Corporate customers	124,024	115,886
Retail customers	344,237	318,903
Total	**468,261**	**434,789**

Corporate Banking

NKBM classifies in the corporate banking sector non-financial sector institutions such as companies, state owned bodies and institutions, other financial institutions, non-profit institutions and non-resident accounts. In this sector, NKBM extends a full range of products and services to its clients which include deposit-taking, loans and facilities, financial and commercial consultancy, guarantees, domestic and international payment services, factoring, forfeit financing, documentary operations and export-finance transactions.

Corporate Loans

NKBM provides short-term and long-term loans to its clients in both tolar and foreign currencies. As at 31 December 2005, total corporate loans, including to financial institutions, amounted to SIT 279,438 million (representing 67.0 per cent. of total loans).

Among its short-terms loans, NKBM extends to its clients tolar credits of up to 30 days, and over 31 days, together with overdraft facilities, loans secured against deposits placed with NKBM and bridging loans. In addition, NKBM has also contracted loans in euros, U.S. dollars and Swiss francs. The interest rates for such loans are determined on the basis of reference and market interest rates, increased by its own margin.

In the category of short-term tolar and foreign currency loans to institutions and enterprises, the major portion of funds loaned to its clients was used to finance projects for the purpose of day-to-day operations. NKBM also facilitates loans in conjunction with a variety of other institutions, including trust funds and municipal authorities, under more favourable terms than would otherwise apply. Through the extension of long-term loans, NKBM has financed local infrastructure investments, as well as capital equipment acquisitions and various construction projects in Slovenia. Smaller projects have also been supported through special long-term facilities provided by NKBM through on-lending loans from various funds at both municipal and state levels.

In 2005, loans to non-financial-sector institutions excluding sole proprietors accounted for 82.5 per cent. of total loans to legal entities (a decrease of 0.7 per cent. from the previous year); loans to other financial institutions represented 10.4 per cent. (a decrease of 0.3 per cent. from the previous year); loans to the state sector represented 2.1 per cent. (a decrease of 0.9 per cent. from 2004); and loans to non-residents accounted for 4.6 per cent. (an increase of 1.8 per cent. from 2004). See "*Loan Portfolio*".

Corporate Deposits

NKBM offers short-term and time deposit facilities, in foreign currency and tolar. As regards short-term tolar deposits, NKBM offers overnight and, up to 30 day deposits, as well as deposits of 1, 2, 3, 6 and 9 months maturity; which is complemented by the possibility of foreign currency deposits with maturity of up to 30 days and over 1, 3 and 6 months.

NKBM also offers a broad spectrum of long-term deposits, which encompasses fixed-term tolar deposits, as well as foreign currency deposits with maturities of over 1, 2, 3 and 5 years. With respect to foreign currency deposits, NKBM also offers foreign currency deposits at call, where a period of notice of withdrawal is required. Since the end of 2003, NKBM's clients have been able to contract long-term deposits whereby they could select the type of interest rate that was most suitable to their needs, namely either the reference rate, or the rate currently applicable to 60-day Bank of Slovenia treasury bills.

In addition to its more traditional deposits, NKBM is able to provide its corporate clients with certificates of deposit, as well as the possibility of obtaining liquidity loans under more favourable terms against tolar deposits with maturities in excess of 31 days. In addition to promoting the use of Activa MasterCard and Visa business cards, NKBM also contracts frame agreements for multiple credit and debit payments, as well as the use of deposits as first-rate loan collateral or for instituting guarantees and documentary credits.

In the category of deposits from corporate clients excluding sole proprietors, deposits from non-financial sector institutions amounted to 66.8 per cent. of total deposits from clients in the corporate banking sector in 2005 (an increase from 60.9 per cent. in 2004); deposits from other financial sector institutions represented 12.6 per cent. of total deposit (down from 20.2 per cent. in 2004); deposits from the state sector represented 13.2 per cent. of total deposit (up from 10.7 per cent. in 2004) and deposits from non-residents represented 3.9 per cent. of total deposits (down from 5.0 per cent. in 2004).

Total deposits by non-financial corporations grew by SIT 12,297 million during 2005 to SIT 82,905 million; amongst these, demand deposits represented SIT 28,402 million, while short-term and long-term deposits amounted to SIT 54,503 million.

Domestic Payment Services

Preparations for the adoption of the euro have required changes in the field of domestic payment services. In collaboration with the Slovenian Banking Association, NKBM's staff have prepared euro-adjusted payment forms (special deposit slip, special money and universal payment order BN02). During 2005, NKBM was successfully integrated into the TARGET pan-European payment system which will, upon the adoption of the euro on 1 January 2007 and the abolition of the domestic payment system, also process "domestic" payment orders.

As at 31 December 2005, NKBM maintained 320,492 active transaction accounts, a rise of 0.9 per cent. on the previous year. NKBM's portion of all active transaction accounts registered at the central register of transaction accounts with the Bank of Slovenia is 14.3 per cent. The number of active business transaction accounts (transaction accounts of corporate clients and sole proprietors) stood at 21,759 (13.8 per cent. market share), and the number of transaction accounts of private citizens stood at 298,733 (14.4 per cent. market share).

The number of transactions channelled by legal entities through their NKBM business accounts varied between 102,000 and 113,000 per month during 2005. The proportion of transactions which were executed electronically via NKBM's Poslovni Bank@net system was 87 per cent. in 2005, compared with 85 per cent. in 2004.

Retail Banking

NKBM offers a broad range of products and services to its retail customers across Slovenia, which for statistical purposes include private citizens and sole proprietors.

The products and services include all types of consumer and home loans, deposit facilities, domestic and international payment services, currency exchange, travellers cheques, resident and non-resident accounts services, safety deposit facilities, as well as *Western Union* money transfers, and the existing range is continually complemented by new products and services that are specifically adapted to meet the needs of consumers in Slovenia.

Retail Loans

NKBM offers short- and long-term retail loans. As at 31 December 2005, total retail loans amounted to SIT 137,500 million (or 33 per cent. of total loans). Within the scope of long-term loans, NKBM facilitates loans with up to six years repayment and variable real interest rates. NKBM also offers consumer loans with repayment periods of three to five years and fixed nominal interest rates.

This array is also complemented by NKBM's *Kredit Takoj* which offers instantly obtainable short- and long-term loan facilities to citizens and sole proprietors, whereby regular repayment instalments are accomplished through a standing order on the borrower's current account. Available with both fixed or variable interest rates, *Kredit Takoj* encompasses consumer loans with repayment periods of up to 12 months as well as 60 months. In addition to this, and in conjunction with retailers, NKBM offers credit sales (*Kredit na Mestu*) which are instalment facilities offered directly to the purchasing public through the retailer or service provider, without the need to visit NKBM. The maximum amount of such credit sales is SIT 300,000 with a maximum maturity of 24 months.

To customers with immediate liquidity problems, NKBM offers short- and long-term tolar and foreign-currency denominated bridging loans, together with overdraft facilities for those holding transaction accounts.

NKBM offers, against customers' savings accounts, loans and other facilities at more favourable terms than would otherwise be applicable. Thus, by way of its *Plus Varcevanje Savings Plus* scheme, NKBM enables its customers to obtain short- and long-term loans at favourable interest rates.

For the purchase of residential property, as well as the construction of houses, dwelling renovations and the acquisition of building plots, NKBM offers home loans in tolars as well as loans denominated in foreign currencies, repayable over 5, 10, 15 and most recently, 20 years. Loans in foreign currency, in particular Swiss francs, bear more favourable interest rates than those in tolars and NKBM recorded an increased demand for foreign currency home loans in 2005.

As at 31 December 2005, NKBM had extended SIT 137,500 million in gross retail loans (which figure includes loans to citizens and sole proprietors). In the structure of gross loans to non-banking sector customers, the portion accounted for by households (i.e. private citizens and sole proprietors) increased from 30.9 per cent. in 2004 to 33 per cent. in 2005. The remaining portion, comprising of gross loans to non-financial sector institutions, corporations and companies, the state sector, other financial institutions, non-residents and non-profit organisations and institutions, decreased from 69.1 per cent. in 2004 to 67 per cent. in 2005.

Retail Deposits

In terms of short-term tolar deposits, NKBM offers its customers time deposits with various maturities. Customers can contract deposits for 8 to 14 days and from 15 to 30 days in amounts with specified minimums. As regards time deposits with fixed terms of 1, 2, 3, 6 and 9 months, NKBM provides premium interest rates, the magnitude of which is dependent on the deposited amount.

NKBM also offers a number of savings schemes, such as *Plus Varcevanje – Savings Plus*, whereby a customer can obtain loans under more favourable terms. For primary school children there is the *O'Mega* savings scheme, while secondary school students can avail themselves of the NKBM's *Prvo Ta-Pravo Varcevanje – First True Savings Account*.

Another product offered to retail customers is the tolar savings book and tolar savings account, each with a 31-day notice of withdrawal, as well as the special 365-day tolar time deposit offering a most favourable interest rate. By way of these products, NKBM provides a broad and varied range of tolar savings accounts and services aimed at the public at large.

In addition to the various types of tolar deposit, NKBM facilitates foreign currency deposits with maturities of 1, 3 and 6 months. The interest rates paid on foreign currency deposits are adjusted to market interest rates. NKBM also contracts time deposits for euros, U.S. dollars, Canadian dollars, Australian dollars, British pounds and Swiss francs, with maturities of over 1, 3 and 6 months, and interest rates in accordance with the amount deposited. Further to this, NKBM provides a number of non-standard deposit products, including a foreign currency savings book with a one-month notice of withdrawal.

Within the scope of long-term deposits, NKBM offers to its customers long-term tolar deposits with maturities of over 1, 2, 3 and 5 years, together with foreign currency deposits with maturities of over 1 and 2 years, the interest rates for which increase in accordance with the amount deposited. Long-term loans are offered in the same foreign currencies as are available for short-term deposits.

The total number of available types of savings schemes such as annuity savings, housing savings, foreign currency accounts and savings books increased during 2005. Among these products is *Rentno Varcevanje*, a special type of long-term savings annuity aimed at providing the recipient a supplementary pension, and thus an improved standard of living in their retirement years. By way of this scheme, customers may contract the scheme in tolars or in a foreign currency (euros, U.S. dollars or Swiss francs).

NKBM also facilitated savings schemes for the solution of housing problems through Slovenia's National Housing Savings Scheme. This programme enables NKBM to offer individuals 5 and 10 year savings plans which are supported by the State, so that after 5 or 10 years the depositor is able to secure a 10 or 20 year home-loan at a favourable interest rate. As of 31 December 2005, NKBM had made 3,404 five-year contracts with a total value of SIT 3,405 million and 314 ten-year contracts with a total value of SIT 324 million. NKBM will not participate in the 2006 savings scheme.

Demand (sight) deposits held by households, namely private citizens and sole proprietors, grew by SIT 10,498 million and amounted to SIT 150,114 million at the end of 2005; total short- and long-term deposits grew by SIT 14,836 million and amounted to SIT 194,123 million at year's end.

Insurance Services

NKBM has a 49.96 per cent. stake in ZM, Slovenia's second largest insurance company.

ZM provides life insurance products and, in conjunction with partner AXA Assistance, provides tourist and travel insurance. Due to the requirement under Slovenian regulation for specific authorisation to transact insurance business, only a relatively small proportion of NKBM's branches currently offer these insurance products.

International Payments

During 2005, NKBM actively encouraged the usage of its *Poslovni Bank@net* electronic banking facility for international operations. As of 31 December 2005, 63.5 per cent. of all foreign currency transactions were performed through *Poslovni Bank@net*, a system which enables customers to, amongst other things, comply with reporting requirements for payments received, transmit statistical data on incoming payments, claim for deposits and transfer foreign currency to other accounts.

Total net payment transactions performed through NKBM accounts held at its foreign correspondents, namely international payments for exports and imports, retail banking remittances, and foreign currency cash operations (banknotes), amounted to the equivalent of €3,384 million in 2005 (as compared to €3,120 million in 2004); and 87.1 per cent. of this total was effected in euros, followed by 9.8 per cent. of the total in U.S. dollars; payments in other currencies accounted for less than 1 per cent. each.

Total net international payments in 2005 recorded an increase of 8.46 per cent. from the previous year from €3,120 million in 2004 to €3,384 million in 2005.

Branch Operations

NKBM enables its customers to perform their business with it in a number of ways:

- in person, at the counters of its various branches and offices during working hours
- through automatic teller machines ("**ATMs**")
- using cards at point-of-sale ("**P.O.S.**") terminals
- using electronic banking systems: *Bank@net* (for retail customers) and *Poslovni Bank@net* (for business customers)
- using the Telebanka telephone banking service
- using the mobile telephone banking services
- via Western Union.

NKBM's operations are currently restricted to the Republic of Slovenia. As of the end of 2005, NKBM had a total of 87 organisational units comprising 14 branches, and 73 sub-branches, agencies and commercial banking departments which provide services to its corporate, institutional, commercial and retail customers.

At the end of 2005 NKBM operated 225 ATMs. A total of 7,154,223 transactions, which was 4.8 per cent. more than the previous year, were performed through these interfaces during the course of 2005.

Despite the very strong growth attained in previous years, card operations expanded in 2005. As of the end of 2005, NKBM had issued 286,015 debit and 68,512 credit cards, an increase of 1.9 per cent. and 0.6 per cent., respectively, from 2004.

The increase in card operations was also influenced by an 8.0 per cent. rise in the number of P.O.S. terminals and by the end of 2005 NKBM had 3,656 terminals in operation.

The number of users of *Bank@net*, NKBM's electronic banking service, increased by 47.8 per cent. during 2005. The number of domestic transactions increased by 23.5 per cent. and the number of foreign transactions by 136.5 per cent. By year's end 19,104 customers were utilising the system.

Today the *Poslovni Bank@net* system provides its users with, amongst other things, the balance on their account, account turnover, preparation of payment orders and the execution of payments; the review and printing of account statements; insight into the situation as regards the receipt of payments from abroad, as well as the disposition of such payments; the dispatch of orders for the placement of foreign currency deposits, the purchase and sale of foreign currency, as well as the transfer of such funds to other accounts. In addition to reviewing and sending messages, *Poslovni Bank@net* also facilitates the transmission of statistical data for use by the Bank of Slovenia.

The number of enterprises taking advantage of *Poslovni Bank@net* increased by 16.5 per cent. during 2005, and at the end of 2005 there were 4,642 users. The number of domestic transactions increased by 4.8 per cent. and the number of foreign transactions by 60.0 per cent., while the total value of domestic and foreign transactions increased 7.5 per cent. and 62.5 per cent., respectively, on the previous year.

Cellular telephone banking services for enterprise, known as *Poslovni Bank@net*, *EPP Mobile*, are available to business customers. *EPP Mobile* is designed to perform basic transactions between companies and NKBM. It is a mobile version of *Poslovni Bank@net*, giving customers an online connection to their account using their mobile phone. *EPP Mobile* displays SIT account balances, account turnover, preparation of SIT payment orders, execution of payments and a record of payments already made.

Another telephone service, *Telebanka*, also facilitates the performance of banking services via phone, and offers the customer immediate and secure access to NKBM's services. By following basic safety protocols in accessing NKBM, the customer can obtain information as to their balance and account transactions. They can also order blank cheques, place stop-payments on cheques, request overdrafts, organize payment cards for use with their account, arrange documentation for loans, as well as call for and cancel cash withdrawals. By using a special security identification card, the customer can also make payments through *Telebanka*, obtain loans and place deposits and take advantage of *Western Union* payment services. In addition, together with details of the latest interest and exchange rates, Telebanka allows the customer to access a large amount of useful information concerning banking services and their accounts.

Moneta is a system used for performing secure cashless payments by mobile phone. During 2005, 3,726 customers registered to use the Moneta service with NKBM, a seven-fold increase over 2004 as a result of increased marketing of the service. By the end of 2005, NKBM concluded 535 contracts with the providers of Moneta services at 1,056 points of sale, an increase of 550 per cent. on 2004. Turnover in the Moneta system amounted to over SIT 541 million in 2005, an increase of 240 per cent. compared to 2004, mainly due to the increasing number of users and points of sale.

NKBM also offers *Western Union* funds transfer and payment services. The number of money transfer transactions utilising this service increased by 52.8 per cent. in 2005. In the first half of 2006, 4,443 transfers were made (1,284 debit transactions in an aggregate amount of SIT 114.3 million and 3,159 credit transactions in an aggregate amount of SIT 249.5 million).

Risk Management

Introduction

The principal categories of risk inherent in NKBM's business are credit risk, interest rate risk, liquidity risk and foreign exchange risk (interest rate and foreign exchange risks are market risks). The purpose of risk management is to monitor and control the size and concentration of risks arising from NKBM's activities. NKBM manages all types of operational and financial risk centrally and independently from its day-to-day commercial activities. NKBM's risk management policy is designed to identify and analyse the relevant risks, set appropriate limits and continually monitor those limits by means of a management and control structure that separates risk-management from its day-to-day commercial activity. The Management of NKBM is responsible for defining the overall approach to risk management and thereafter, risk management is performed directly by:

- *The Assets and Liabilities Committee* ("*ALCO*"). ALCO examines the structural balance of NKBM's assets and liabilities in view of the risks, as well as relevant internal and external regulatory requirements. Thus ALCO establishes the liquidity goals and policies in view of NKBM's short- and long-term liquidity structure, capital adequacy, interest risk, the tax aspects of operations, currency and market risks, the profitability, efficiency and effectiveness of profit centres, financial plans as well as credit and other risk pertinent to existing and new products.

- *Liquidity Committee* which is responsible for the daily management of short-term liquidity and also establishes the scope of the daily exchange rate policy.

- *Credit Committee* which examines and approves large exposure and credit risks pertaining to business with NKBM's largest clients.

- *Risk Management Division* which monitors daily currency, market and investment risk in compliance with set limits.

Credit Risk

Credit risk is broadly defined as the risk that a borrower will fail to meet its financial obligations to the creditor. NKBM protects itself against credit risk in a number of ways:

- by assessing the degree of risk posed by individual debtors, as well as the allocation of specific provisions with regard to on-balance sheet assets and off-balance sheet commitments;

- by ensuring adequate capital to cover potential credit risk;

- implementation of internal limits with regard to exposure to individual segments of the market; and

- paying due regard to the exposure limits that have been prescribed for individual debtors and parties with large capital associations.

Risk management in NKBM also involves an assessment as to the quality of an individual borrower's collateral, as well as an evaluation of the borrower's capacity to meet its obligations to NKBM. Based on these criteria, debtors are classified into groups A to E according to the assessed degree of risk of loan default. Categories C to E represent non-performing loans. NKBM's risk-assessment methodology used in the risk-grade categorisation of its borrowers utilises both objective criteria, such as delays in payment and a credit scoring system, and subjective criteria and conforms to the regulations prescribed by the Bank of Slovenia. The individual assessment of a borrower is further complemented by an analysis of the impact that the particular borrower has on the total credit portfolio of NKBM which is then used to ensure an appropriate diversification of the portfolio. To this effect NKBM focuses on the aggregate exposure to individual groups, which therefore relates to the relevant economic, geographic and institutional sectors. As of 31 December 2005, NKBM's credit portfolio amounted to SIT 416,938 million. Of this, 92.51 per cent. was classified either as A or B (see "*Loan Losses and Provisions*" and "*Loan Classification and Provisioning Policies*").

On the basis of its loan categorisations, namely categories A to E, NKBM is able to estimate the extent of potential losses that may arise as a result of credit risk, which, in turn, provides the basis for establishing the specific provisions of funds necessary to cover such risk. As at 31 December 2005, provisions set aside for B, C, D and E-rated assets amounted to SIT 30,292 million, or 97.04 per cent. of total C- to E-rated loan assets.

In 2005, in line with the enlargement of its credit portfolio, NKBM made a total provision of SIT 1,919 million against credit risks or 3.36 per cent. of total loan assets.

Capital Coverage of Credit Risks

NKBM ensures adequate regulatory capital in order to cover unexpected losses from its credit portfolio. NKBM assesses the amount of risk-adjusted capital, which is the sum of the net values of all on-balance and off-balance sheet items, weighted by the degree of credit risk. At 31 December 2005, risk adjusted capital amounted to SIT 490,285 million.

The amount of risk-adjusted capital forms the basis of the calculation of the requisite capital necessary to cover credit risks. Pursuant to regulations on the capital adequacy of banks and savings institutions, NKBM must ensure there is at least 8 per cent. coverage of risk-weighted assets by capital that can cover such credit risk. As of 30 June 2006, NKBM's capital ratio stood at 9.81 per cent. of NKBM's risk weighted assets. Following the issue of the Notes and the loan of the proceeds to NKBM, NKBM expects that its capital ratio will increase to 11.3 per cent.

Internal Limits to Exposure

Credit risk also encompasses risk from overexposure to a single client or group of related clients. NKBM ensures it is not over-exposed to any one client or grouping of connected clients through establishing internal exposure limits, which are set separately for foreign banks and domestic financial institutions. NKBM is also subject to Bank of Slovenia limits on large exposures to non-bank clients. NKBM is in compliance with all such requirements. See "*Loan Portfolio – Loans by Size and Concentration*".

The provisions of the Bank of Slovenia regulations governing exposure determine the largest permissible exposures to a single client or group of connected clients and private individuals in a specific relationship with NKBM and NKBM operates within the framework of the statutory limits prescribed for permissible exposures.

Liquidity Risk

Liquidity risk management is intended to ensure that, even under adverse conditions, a bank has access to the funds necessary to cover clients' needs, maturing liabilities and the capital requirements of NKBM's operations. Liquidity risk arises in the general funding of financing, trading and investment activities and in the management of positions. It includes both the risk of unexpected increases in the cost of funding a bank's assets portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

NKBM measures liquidity risk by employing assets and liabilities maturity mismatch methodology, with structural liquidity risk being assessed in relation to net liquid assets. So as to conform to statutory regulations pertaining to the narrowest liquidity margin which banks are required to ensure, NKBM measures its co-efficient of liquidity on a daily basis. NKBM calculates the co-efficient of liquidity in two time-bands, namely from 0-30 days (time band I) and from 0-180 days (time band II). The total prescribed co-efficient of liquidity in each time band must be at least 1. However NKBM generally targets a co-efficient of liquidity in excess of the statutory requirement, so as to permit additional flexibility. On 31 December 2005, the liquidity co-efficient for time band I was 1.160 and for time band II 1.104.

Further, NKBM's internal limits prescribe the proportion of assets which must be left in liquid assets. At least 30 per cent. of the balance sheet total is required to be represented by high quality securities, such as treasury bills, government securities and investment grade corporate bonds.

NKBM's Liquidity Committee, which among others includes all members of the Management Board, meets daily and monitors implementation of the liquidity policy established by the Asset and Liability Committee and NKBM is also obliged to report daily to the Bank of Slovenia in respect of its statutory reserve requirements.

Market Risk

Market risk represents a bank's exposure to elements such as fluctuations in interest and foreign exchange rates, as well as fluctuations in the value of securities. Adverse changes can result in losses. Market risks considered by NKBM include trading position risk, interest risk and currency risk. Trading activities that NKBM performs on its own account or for third parties with the aim of generating a profit from shifts in price, are exposed to position risk derived from the potential of an adverse movement in an exchange rate, or a fall in the market price of any securities held.

As a result of its varied assets and liabilities, NKBM is exposed to interest rate risk in the form of interest rate differential and maturity mismatch, which is further complicated by having assets and liabilities denominated in foreign currencies subject to the exchange rate risk. The amount and degree of risks that NKBM is prepared to assume is defined by a coefficient of capital adequacy in which the capital requirement must not exceed the capital that is available to cover any potential losses. NKBM uses a Value-at-risk methodology which estimates the potential losses which might arise from certain adverse market movements given a specified time period for liquidating positions and a pre-defined confidence level.

NKBM plans capital adequacy in compliance with its business and financial plans and the internally established ratio of capital adequacy surpasses the minimum prescribed by the regulatory authority.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. NKBM measures interest rate risk by way of monitoring the interest rate spread across its entire portfolio. Measurement is performed separately for items at fixed and at variable interest rates and NKBM calculates the average interest rates on each individual product which are formulated with respect to the market situation in relation to interest rates, the average interest rates already being achieved on individual products, as well as with respect to the calculation and closing of interest rate spread per currency in relation to the type of interest rate.

NKBM's policy is to run a matched position where possible. NKBM monitors changes in interest rates and re-pricing gaps at least monthly for both assets and liabilities. NKBM does not generally use derivatives for hedging purposes. On average, the interest rate sensitivity gap of NKBM during 2005 amounted to less than 2 per cent. of the balance sheet total.

Foreign Exchange Rate Risk

Foreign exchange ("**FX**") risk arises from the potential of incurring a loss from an unreconciled foreign currency position given the volatility of exchange rates.

NKBM has adopted a system of limits on its net foreign currency position. These limits are set on the basis of the maximum accepted impact an open currency position can have on a bank's capital adequacy in Slovenia. During 2005, NKBM maintained a net closed foreign currency position on a daily basis for each individual currency, as well as the position in tolars with foreign currency indexation. The one exception to this is the net open position for euro where NKBM has intentionally kept a long position to comply with Bank of Slovenia liquidity regulations.

Trading Position Risk

Trading position risk is the risk of suffering a loss as the result of a change in the price of a financial instrument which NKBM holds in its portfolio for the purpose of trading on its own account or on behalf of a third party. In terms of trading position risk, NKBM includes all trading positions regarding FX and securities.

The methodology and the objectives of trading in securities and foreign currencies are set forth in NKBM's internal policy on risk management in treasury operations and investment banking. NKBM measures position risk through establishing liquidation values on a daily basis.

The volume of tradable items is indirectly determined by the annual financial plan together with the internal capital adequacy limit. The established methodology used to define limits specifies the permissible volume of trading in equities and related derivative instruments. Limits are set as a maximum value per portfolio and as Value at Risk in accordance with Basel II requirements.

In its foreign exchange trading, NKBM manages position risk, together with open foreign exchange position risk, using methodologies which prescribe trading limits for operations conducted on its own account and on behalf of its customers. The limits for trading on NKBM's own account are prescribed by predetermined trading open position limits for each individual FX trader, as well as by maximum allowed loss on a monthly and annual level. In the year ended 31 December 2005 and in the six months ended 30 June 2006, NKBM did not exceed its internally prescribed limits as regards position risk.

Loan Portfolio

NKBM offers a range of lending products to its retail and corporate customers. It offers individual clients (including sole traders and entrepreneurs) overdrafts of up to 12 months, short-term and long-term consumer loans, short-term and long-term bridging loans and housing loans. For corporate clients it offers local currency and foreign currency short- and long-term loans, including letters of credit facilities, export financing, project financing, factoring and forfeiting.

The following table sets out details of NKBM's loan portfolio as at the dates indicated:

	As at 31 December				As at 30 June	
	2004		2005		2005	2006
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(SIT million)*
Overdraft	11,761	3.3	12,740	3.1	13,469	14,928
Credit Cards	117	0.0	151	0.0	N/A	N/A
Short-term loans						
Tolars	122,640	34.1	103,455	24.8	81,057	71,622
Other Currencies	68,650	19.1	97,921	23.5	52,438	102,764
Long-term loans						
Tolars	100,526	27.9	123,904	29.7	170,261	175,227
Other Currencies	55,217	15.3	77,854	18.7	88,836	134,203
Claims under guarantees	958	0.3	913	0.2	934	2,344
Total	359,869	100.0	416,938	100.0	406,994	501,087
Provisions for credit risk	(28,372)		(30,292)		(44,008)	(45,194)
Total	**331,497**		**386,646**		**362,986**	**455,893**

Currency

Slovenian banks have been allowed to offer foreign currency loans without any limitations since 1 November 2003. Until then, banks could offer loans only to corporates for investments or purchases abroad. Interest rates for foreign currency loans tend to be more favourable than interest rates for SIT loans, therefore corporate clients tend to opt increasingly for FX loans.

The following table sets out details of NKBM's loan portfolio by currency as at the dates indicated:

	As at 31 December				As at 30 June	
	2004		2005		2005	2006
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(SIT million)*
Tolars	212,314	64.0	217,627	56.3	227,541	228,584
Other Currencies	119,183	36.0	169,019	43.7	135,446	227,310
Total	**331,497**	**100.0**	**386,646**	**100.0**	**362,986**	**455,893**

Maturity

The following table sets out details of NKBM's loan portfolio by maturity as at the dates indicated:

	As at 31 December				As at 30 June	
	2004		2005		2005	2006
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(SIT million)*
Short-term loans(1)	204,126	56.7	215,180	51.6	147,898	191,658
Long-term loans(2)	155,743	43.3	201,758	48.4	259,097	309,427
Total	359,869	100.0	416,938	100.0	406,994	501,087
Provisions for credit risk	(28,372)		(30,292)		(44,008)	(45,194)
Total	**331,497**		**386,646**		**362,986**	**455,893**

Notes:

(1) Short-term means up to one year.

(2) Long-term means more than one year.

Sector Concentration

Certain market share and other data as to the Slovenian banking sector in this section is derived from official Government sources.

NKBM's strategy is focused on customers with appropriate ratings from areas of activity that are showing positive operating trends; and customers from sectors whose weighting in NKBM's portfolio is lower than that for banks in Slovenia as a whole.

The Slovenian Institute of Macroeconomic Analysis and Development forecast in its Spring 2006 report positive economic activity in Slovenia in 2006 (4.2 per cent. Gross Domestic Product ("**GDP**") growth) and 2007 (4.0 per cent. GDP growth). Value added growth is expected in all sectors, except for the mining industry. An exceptional value added growth is expected in the following sectors:

- production of metal and metal goods (15 per cent.);
- production of vehicles and boats (13 per cent.);
- processing industry – especially in export-oriented sectors (12 per cent.);
- construction – building of highways and houses (12 per cent.);
- catering industry (10 per cent.);
- financial agency services (9 per cent.);
- production of electrical and optical equipment (8 per cent.);
- business services (8 per cent.);
- production of machines and equipment (7 per cent.);
- production of chemical goods (7 per cent.);
- transport, warehousing and communications (4 per cent.).

Value added growth in public services will remain approximately at the same level.

Processing Industry

The processing industry achieved significant growth in 2005. The processing industry creates most of its revenues through exports. Highest growth, 6.8 per cent., was recorded in explicitly export-oriented sectors, which also recorded 0.7 per cent. growth in employment. Increased growth in the production of vehicles and boats resulted from the decision of Revoz d.d., which produces Renault cars, to concentrate its operations in Slovenia. In 2006, further significant economic growth is expected in the processing industry, with lesser growth predicted for 2007 and 2008.

Construction

In 2006, 2007 and 2008 value added growth in construction is expected to accelerate, reaching its peak in 2006 following two years of declining activity in this sector. According to the Annual Highways Development Plan, activities connected with highways construction and reconstruction will increase by 30 per cent. in 2006, and the level of such activities is also expected to remain high in 2007. Due to a proposed increase in value added tax in 2008, it is expected that house construction will slow down in that year.

Financial Agency Services

In 2006, 2007 and 2008 it is expected that value added growth will stabilise slightly in the Financial Agency Services sector while still growing more quickly than the Slovenian economy as a whole. Financial services in Slovenia are still less developed than in other EU countries and it is expected that new and more sophisticated financial products and services will be introduced in Slovenia, especially life insurance products and in the capital markets. Due to a proposed increase in value added tax in 2008, it is estimated that there will be increased demand in the housing market in 2007, which will contribute to an increased housing activity in loans for banks.

Real Estate, Business Activities

As the national revenue of high-tech services and products in Slovenia compared to the rest of the economy is below the average in other EU countries, relatively high growth in this sector in the coming years is expected. In particular, increased demand in computer technology services is expected in 2006 due to the dual currency marking law put in place in Slovenia on 1 March 2006 (under which all pricing must be marked to both tolar and euro) and the introduction of the euro to Slovenia on 1 January 2007.

Catering Industry

In the coming years growth is expected in this sector, mainly due to an increase in revenues from tourism.

Transport, Warehousing and Communication

The Slovenian Institute of Macroeconomic Analysis and Development estimates that Slovenian membership of the EU will continue to have a positive effect on the transport sector, which, due to the small size of Slovenia, conducts the majority of its services in international transport. Telecommunication services are expected to develop rapidly as well.

NKBM will concentrate more on the sectors set out above than on other economic sectors. However, it will still follow internal rules on loan portfolio diversification and prescribed limits on exposure to a single client and to groups of connected clients.

The most economically developed regions in Slovenia are Central Slovenia (*Osrednjeslovenska regija*), Drava region (*Podravska regija*) and Savinja region (*Savinjska regija*), which make up 44.2 per cent., 10.8 per cent. and 10.2 per cent. of all corporate revenues in Slovenia, respectively. Non-financial corporates represented 45.5 per cent. of the NKBM portfolio on 30 June 2006. Regional exposure is mainly concentrated in four regions: Drava region, totalling 40.8 per cent., Central Slovenia totalling 18.1 per cent., Gorica region (*Goriška regija*) totalling 15.7 per cent. and Savinja region totalling 12.3 per cent. In all other Slovenian regions, NKBM has less than 5 per cent. regional exposure.

Central Slovenia, Drava region and Savinja region have developed economically over the last few years and it is expected that this will continue. For this reason NKBM has decided to focus its marketing and selling activities in Central Slovenia and Savinja region, where NKBM has not yet fully developed its potential.

Strategically, in order to manage credit risk properly, NKBM focuses on providing services to clients with good ratings, considering also the potential for economic growth and their diversification by sector and region. The following table sets out NKBM's loan portfolio by economic sector as at the dates indicated:

	As at 31 December	
	2004	**2005**
	(%)	*(%)*
Agriculture	0.6	0.5
Fishing	0.0	0.0
Mining	0.0	0.1
Manufacturing	15.1	14.9
Electricity, gas, water supply	0.7	0.6
Construction	4.9	6.7
Trade	9.7	9.0
Catering	1.0	1.2
Traffic and communications	1.7	1.1
Financial mediation	17.4	16.1
Real estate	8.0	6.9
Public administration	15.7	11.9
Education	0.2	0.1
Health and social care	0.3	0.3
Foreign legal persons	5.4	10.9
Other (private citizens, other public services)	19.3	19.7
Total	**100.0%**	**100.0%**

Loans by Size and Concentration

NKBM's exposure to a single client is the sum of all actual claims and potential claims on the respective client, the value of investments for NKBM's own account in securities issued by that client and NKBM's equity holdings in such client. NKBM is also required to adhere to regulations imposed by the Central Bank of Slovenia ("Central Bank Regulations").

According to Central Bank Regulations, a bank's exposure to a single client should be classified as a large exposure if the value of the exposure is equal to or exceeds 10 per cent. of the own funds of the bank. The relevant regulations also stipulate that a bank's capital shall be the capital calculated in accordance with the prevailing Regulations on Capital Adequacy of Banks and Savings Bank of the Central Bank of Slovenia.

Under Central Bank Regulations, a single client is a client who is either a borrower, a guarantor, an issuer of a security, a person in which NKBM has an equity holding, or a client (i.e. the counter-party with whom an agreement has been made) in the case of a derivatives contract or any client who is classified as a debtor in relation to NKBM. A single client under Central Bank Regulations shall also be deemed to refer to two or more persons between whom there is sufficient relationship as to constitute a single risk for NKBM (a "Group of Connected clients") and such a group shall be treated as a single client.

Further, Central Bank Regulations also provide that:

- a bank's exposure to a single client shall not exceed 25 per cent. of its own funds;
- a bank's exposure to a single client in a special relationship with the bank (as referred to in the first paragraph of Article 83 of the Banking Act) shall not exceed 20 per cent. of its own funds. A client is considered to be in a special relationship with the bank if it is a member of the board or supervisory board (or a family member of such a person), a proxy, a private person holding more than 5 per cent. of the voting rights or share capital in the bank (or a family member of such a person), a company (other than a bank) holding more than 10 per cent. of the voting rights or share capital in the bank (or a proxy of such a company);
- a bank's exposure to an individual person which the bank controls directly or indirectly shall not exceed 20 per cent. of its own funds;
- a bank's total exposure to all its single clients shall not exceed 200 per cent. of its own funds. In this respect, the bank's exposure to an individual person which the bank controls as set out above should not be included in the calculation to the bank's total exposure to single clients; and
- a bank's sum of all large exposures should not exceed 800 per cent. of its own funds.

The following table sets out details of NKBM's largest loan and largest exposure:

	As at 31 December				**As at 30 June**			
	2004		**2005**		**2005**		**2006**	
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*
Largest loan	9,962	2.77	9,920	2.38	9,941	2.44	10,004	2.00
Total loans	**359,869**	**100**	**416,938**	**100**	**406,994**	**100**	**501,087**	**100**
Largest exposure	95,059	15.53	96,423	13.79	95,716	14.89	101,932	12.82
Total exposure	**312,077**	**100**	**699,455**	**100**	**642,899**	**100**	**794,830**	**100**

As at 31 December 2005, NKBM's 20 largest client exposures represented 21.4 per cent. of its total loans.

The following table sets out details of NKBM's loan portfolio by size as at the dates indicated:

	As at 31 December				As at 30 June			
	2004		2005		2005		2006	
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*
under 1.000.000 SIT . .	45,158	12.5	49,949	12.0	51,281	12.6	36,078	7.2
From 1.000.000 – under 10.000.000 SIT	44,018	12.2	73,787	17.7	67,968	16.7	91,198	18.2
From 10.000.000 – under 50.000.000 SIT	30,824	8.6	44,470	10.7	39,478	9.7	49,107	9.8
From 50.000.000 – under 100.000.000 SIT . .	21,576	6.0	27,285	6.5	24,827	6.1	24,553	4.9
From 100.000.000 – under 500.000.000 SIT . .	80,354	22.3	96,682	23.2	95,237	23.4	111,742	22.3
Over 500.000.000 SIT . .	137,939	38.3	124,765	29.9	128,203	31.5	188,409	37.6
Total	**359,869**	**100.0**	**416,938**	**100.0**	**406,994**	**100.0**	**501,087**	**100.0**

Non-performing loans

The following table sets out certain information relating to NKBM's non-performing loans as at the dates indicated:

	As at/Year ended 31 December		As at 30 June	
	2004	2005	2005	2006
	(SIT million, except percentages)			
Gross Loans	359,869	416,938	406,994	501,087
Non-Performing Loans (NPLs)	30,781	31,216	48,470	41,601
Ratio of NPLs to Gross Loans (%) . .	8.55	7.49	11.91	8.30
Specific Provisions (Provisions for NPLs) . .	18,816	18,736	36,940	31,752
Ratio of Specific Provision to NPLs (%) . .	61.13	60.02	76.21	76.33
Total Provisions	28,373	30,292	44,007	45,194
Ratio of Total Provisions to NPLs (%) . .	92.18	97.04	90.79	108.64

Note:

"**Non-performing loans**" means those classified as C, D and E.

The following table sets out details of NKBM's non-performing loan portfolio by economic sector as at the dates indicated:

	As at 31 December		As at 30 June	
	2004	2005	2005	2006
		(%)		
Agriculture	3.87	4.13	2.47	3.24
Fishing	0.00	0.15	0.00	0.11
Mining	0.00	0.00	0.00	0.00
Manufacturing	41.95	37.68	37.06	33.21
Electricity, gas, water supply	0.42	0.40	0.32	0.26
Construction	5.44	8.59	4.49	3.56
Trade	14.07	12.20	12.00	11.82
Catering	2.43	1.78	2.27	1.56
Traffic and communication	0.73	0.84	0.77	0.80
Financial mediation	0.51	0.51	0.35	0.42
Real estate	7.04	7.51	6.00	7.72
Public administration	0.00	0.00	0.03	0.00
Education	0.03	0.07	0.05	0.02
Health and social care	0.03	0.13	0.02	0.01
Foreign legal persons	2.77	5.57	3.35	1.06
Other	20.71	20.44	30.83	36.21
Total	**100.00**	**100.00**	**100.00**	**100.00**

Loan Losses and Provisions

A specific credit risk provision for loan impairment is established to provide management the means of estimating credit losses as soon as the recovery of an exposure has been identified as doubtful. In the case of loans to borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made and additional country risk provisions are established as necessary.

When a loan is deemed uncollectible, it is written off against the related provision for impairments. Subsequent recoveries of loans are credited to the income statement if previously written off.

NKBM, within the framework of prescribed and internal criteria, classifies balance sheet and off-balance-sheet asset items according to their level of risk and evaluates potential losses deriving from credit risks.

Up to 1 January 2006, specific provisions for potential losses that NKBM established according to classification of claims in groups B, C, D and E were recorded as the value adjustments of claims on the assets side of the balance sheet. Provisions for potential losses that NKBM established for claims in group A were also recorded as the value adjustments of claims on the asset side of the balance sheet. Specific provisions for potential losses that NKBM established according to classification of claims in groups B, C, D and E were recorded as the value adjustments of claims on the assets side of the balance sheet.

Since 1 January 2006, NKBM assesses the strength of financial assets and assesses the probability of loss from contingent liabilities in accordance with IFRS. As a result, the provisions for A graded claims are recognised in the same way as for claims classified within other grades.

NKBM classifies financial assets and contingent liabilities into the following groups:

(i) Individually significant claims against banks and savings banks in Slovenia, direct governmental entities and investment grade banks in the EU (as defined by the Bank of Slovenia in The Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks);

(ii) Individually significant claims against non-investment grade foreign banks and savings banks;

(iii) Individually significant claims against non-bank companies, sole proprietors, citizens and others;

(iv) Individually significant and insignificant claims with prime collateral; and

(v) Individually insignificant claims against non-bank companies, sole proprietors, citizens and others (A-E grades).

Loan Classification and Provisioning Policies

Loan Classification

The following table sets out details of NKBM's Loan Portfolio by credit quality classification as at the dates indicated:

	As at 31 December				As at 30 June			
	2004		2005		2005		2006	
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*
Category P (Individual impairment)	—	—	—	—	—	—	115,215	22.99
Category A	263,169	73.13	304,341	72.99	287,916	70.74	276,300	55.14
Category B	65,919	18.32	81,381	19.52	70,608	17.35	67,971	13.56
Category C	11,527	3.20	12,710	3.05	11,928	2.93	10,911	2.18
Category D	6,623	1.84	6,220	1.49	6,584	1.62	2,948	0.59
Category E	12,631	3.51	12,286	2.95	29,958	7.36	27,472	5.54
Total	**359,869**	**100**	**416,938**	**100**	**406,994**	**100**	**501,087**	**100**

Provisioning Policy

Until 1 January 2006, banks were required to make the following provisions for their portfolio in accordance with Bank of Slovenia rules,:

- for A clients 1 per cent.
- for B clients between 5 per cent. – 15 per cent. (average must be at least 10 per cent.)
- for C clients between 15 per cent. – 40 per cent. (average must be at least 25 per cent.)
- for D clients between 40 per cent. – 99 per cent. (average must be at least 50 per cent.)
- for E clients 100 per cent.

NKBM typically uses the average rates quoted above, but subject to variation if NKBM's credit risk department assesses that higher than average provisions should be made for a client.

Since 1 January 2006, NKBM has used the following provisions in accordance with internal methodology which is in compliance with IFRS and Bank of Slovenia regulations:

- for A clients 1 per cent.
- for B clients 9 per cent. (private citizens 10 per cent.)
- for C clients 23 per cent. (private citizens 25 per cent.)
- for D clients 50 per cent.
- for E clients 100 per cent.

Financial assets that are individually treated are not classified into categories and the provision is calculated by applying internal methodology for assessment of credit risk losses.

As NKBM is required to pay tax on total provisions in each class which exceed the stipulated average, it aims to match the stipulated average across each class as a whole.

The following table sets out the percentage of total provisions allocated to each credit category by NKBM:

	As at 31 December		As at 30 June	
	2004	2005	2005	2006
		(%)		
Category P (individual impairment)	—	—	—	9.40
Category A	9.48	10.37	0.00	6.67
Category B	24.20	27.78	16.06	13.68
Category C	10.24	11.01	7.21	5.61
Category D	11.56	10.27	8.66	3.26
Category E	44.52	40.58	68.08	61.39

Lending and Credit Review Policies and Procedures

Loans are managed and analysed by the relationship manager at the branch level, who then declines or approves the credit and forwards it on to the Credit Portfolio Department for classification and pricing. The loan is then recommended to the credit board, which is comprised of three levels depending on the loan amount or percentage of capital of NKBM.

NKBM has instituted a five-stage loan approval process, with limits placed upon decision-making at each level. Loans exceeding the lending limits of individual branches, are referred up through a series of committees, with the approval of NKBM's Central Credit Committee being required for all loans representing more than 2 per cent. of NKBM's total equity and all loans to customers classified in bands C, D and E.

The Credit Portfolio Department is also responsible for monitoring loans, and NKBM has a special work-out unit for problem loans.

Collateral Policy

Collateral is used as a means for protection against non-payment of obligation in case the circumstances change. As a general rule, corporate loans are not granted without collateral. Retail loans (short-term), however, may be granted without collateral through special offers (products). Long-term investments must have additional insurance such as first class collateral, mortgage, pledge of movable property, pledge of securities, insurance by Slovenian Export Corporation or other insurance.

The following table sets out details of NKBM's loan portfolio which was collateralised and uncollateralised, as a percentage of NKBM's total Loan Portfolio as at the dates indicated:

	As at 31 December				As at 30 June			
	2004		2005		2005		2006	
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*
Collateralised	298,980	83.08	349,599	83.85	338,772	83.24	418,799	83.58
Uncollateralised	60,889	16.92	67,339	16.15	68,222	16.76	82,288	16.42
Total	**359,869**	**100.00**	**416,938**	**100.00**	**406,994**	**100.00**	**501,087**	**100.00**

Funding and Liquidity

NKBM's funding base is one of its key strengths, with customer deposits funding around 65 per cent. of balance sheet assets. Approximately 73.5 per cent. of non-bank funding was derived from retail deposits as at 31 December 2005.

The following table sets forth an analysis of the sources of funding of NKBM as at the dates indicated:

	As at 31 December		As at 30 June	
	2004	2005	2005	2006
	(SIT million)			
Short term due to Banks	8,238	4,519	6,056	12,868
Due to Customers	434,789	468,261	450,761	492,155
Debt Securities	29,693	37,313	37,278	36,090
Other Borrowed Funds[(1)]	43,909	110,907	57,360	145,672
Subordinated Liabilities	19,185	19,166	19,171	19,170
Total	**535,814**	**640,166**	**570,626**	**705,955**

Note:

(1) Includes long-term borrowings from banks.

Due to Banks

The following table sets out details by maturity of NKBM's liabilities to other banks as at the dates indicated:

	As at 31 December		As at 30 June	
	2004	2005	2005	2006
	(SIT million)			
On demand				
in tolars	22	13	16	26
other currencies	413	2,112	834	784
Time deposits				
in tolars	7,803	2,394	5,206	12,058
other currencies	—	—	0	0
Total	**8,238**	**4,519**	**6,056**	**12,868**

In 2005, liabilities due to other banks decreased by SIT 3,719 million, principally due to the decrease in SIT time deposits.

Due to Customers

In 2005 the amount of liabilities to non-banking customers increased by SIT 33,472 million. Liabilities to non-financial corporations increased by 17.5 per cent. or SIT 12,297 million. Liabilities to government entities increased by 32.8 per cent. or SIT 4,047 million.

The following table sets out details of NKBM's liabilities to customers by category as at the dates indicated:

	As at 31 December		As at 30 June	
	2004	**2005**	**2005**	**2006**
	(SIT million)			
Non-Financial Corporations	70,608	82,905	71,671	81,220
Government	12,352	16,399	15,315	26,629
Financial Institutions	23,407	15,622	22,065	13,222
Retail	318,903	344,237	333,012	360,747
Non-Residents	5,764	4,797	4,927	5,244
Non-Profit Institutions	3,755	4,301	3,771	5,094
Total	**434,789**	**468,261**	**450,761**	**492,155**

Debt Securities

The following table sets out details of NKBM's outstanding senior debt issues as at the dates indicated:

	As at 31 December		As at 30 June	
	2004	**2005**	**2005**	**2006**
	(SIT million)			
Certificates of Deposit	4,857	5,406	5,406	6,306
Bonds	24,836	31,907	31,871	29,784
Total	**29,693**	**37,313**	**37,277**	**36,090**

Other Borrowed Funds

The following table sets out details of NKBM's liabilities in respect of other borrowed funds as at the dates indicated:

	As at 31 December		As at 30 June	
	2004	**2005**	**2005**	**2006**
	(SIT million)			
Banks				
Tolars	1	1	1	0
Other Currencies	36,851	97,370	41,657	125,382
Other customers				
Tolars	2,226	2,666	4,535	4,977
Other Currencies	4,831	10,870	11,167	15,313
Total	**43,909**	**110,907**	**57,360**	**145,672**

Subordinated Liabilities

	As at 31 December		As at 30 June	
	2004	2005	2005	2006
	(SIT million)			
Subordinated notes	7,192	7,187	7,187	7,189
Subordinated loans	6	0	6	0
Subordinated securities	11,987	11,979	11,978	11,981
Total	**19,185**	**19,166**	**19,171**	**19,170**

Funding by Original Maturities

The following table sets out NKBM's total funding by remaining life as at the dates indicated:

	As at 31 December				As at 30 June			
	2004		2005		2005		2006	
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*
Short-term[1]	424,080	79.1	476,994	74.5	401,304	70.3	449,872	63.7
Long-term[2]	111.734	20.9	163,172	25.5	169,322	29.7	256,083	36.3
Total	**535,814**	**100**	**640,166**	**100**	**570,626**	**100**	**705,955**	**100**

Notes:

(1) Short-term means up to one year.

(2) Long-term means one year or more.

Although over 74 per cent. of NKBM's funding as at 31 December 2005 was of a short-term nature, the management believes that the majority of its sight deposits represent core and very stable funding from relatively non-price sensitive customers.

As at 31 December 2005, the total liquidity gap in on demand funds was SIT 176,511 million and the total liquidity gap in funds up to 3 months was SIT 51,437 million.

Funding by Currency

The following table sets out NKBM's total funding by currency as at the dates indicated:

	As at 31 December				As at 30 June			
	2004		2005		2005		2006	
	(SIT million)	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*	*(SIT million)*	*(%)*
Tolars	329,771	61.5	360,280	56.3	352,422	61.8	389,836	55.2
EUR	184,425	34.5	257,544	40.2	195,275	34.2	296,071	41.9
USD	16,625	3.1	15,996	2.5	16,767	2.9	13,809	2.0
Other	4,993	0.9	6,346	1.0	6,162	1.1	6,239	0.9
Total	**535,814**	**100**	**640,166**	**100**	**570,626**	**100**	**705,955**	**100**

Deposit Accounts

NKBM offers to its clients different kinds of deposits in SIT as well as in foreign currency. Besides at sight deposits in SIT and major currencies, NKBM offers short-term deposits (1, 2, 3, 6 and 9 months) and long-term deposits (over 1, 2, 3 and 5 years) in tolars, euro, United States Dollars, Australian Dollars, Canadian Dollars and Pounds Sterling. The Bank of Slovenia does not define any maturity limitations in respect of deposits. NKBM also offers deposits to corporate customers, sole proprietors and individuals.

NKBM also offers personal accounts and banking-insurance products. With the intention to broaden its business, NKBM devotes most attention to personal selling, permanent, adaptations of offers, and market oriented selling actions. NKBM also provides personal banking to certain clients.

As at 30 June 2006, NKBM had 320,492 at sight accounts and 122,432 deposit accounts.

The following table sets out details of NKBM's deposit base by category of customers as at the dates indicated:

	As at 31 December		**As at 30 June**	
	2004	**2005**	**2005**	**2006**
	(SIT million)			
Retail	318,903	344,237	333,012	360,747
Corporate	115,886	124,024	117,749	131,408
Total	**434,789**	**468,261**	**450,761**	**492,155**

The following table sets out NKBM's deposit base by maturity by category of customer as at the dates indicated:

	As at 31 December		**As at 30 June**	
	2004	**2005**	**2005**	**2006**
	(SIT million)			
Demand Deposits				
Retail	139,616	150,114	148,773	159,152
Corporate	32,454	37,330	29,658	34,222
Time Deposits				
Retail	179,287	194,123	184,239	201,595
Corporate	83,432	86,694	88,091	97,186
Total	**434,789**	**468,261**	**450,761**	**492,155**

The following table sets out NKBM's deposit base by maturity as at the dates indicated:

	As at 31 December		**As at 30 June**	
	2004	**2005**	**2005**	**2006**
	(SIT million)			
Demand	172,070	187,444	178,431	193,374
Short-term(1)	233,706	261,812	215,339	241,301
Long-term(2)	29,013	19,005	56,991	57,480
Total	**434,789**	**468,261**	**450,761**	**492,155**

Notes:

(1) Short-term means up to one year.

(2) Long-term means one year or more.

The following table sets out the concentration by size of NKBM's deposits base as at the dates indicated:

	As at 31 December		As at 30 June	
	2004	2005	2005	2006
	(SIT million)			
Demand Deposits	172,070	187,444	178,431	193,374
Retail	139,616	150,114	148,773	159,152
Up to 1,000,000 SIT	43,528	50,307	52,444	53,710
From 1,000,000 to 10,000,000 SIT	63,395	84,720	83,405	89,406
From 10,000,000 to 50,000,000	11,203	13,062	11,732	14,070
From 50,000,000 to 100,000,000	2,269	1,353	1,055	1,120
From 100,000,000 to 500,000,000	5,201	671	99	846
Over 500,000,000	14,020		37	
Corporate	32,454	37,330	29,658	34,222
Up to 1,000,000 SIT	162	1,960	1,960	2,054
From 1,000,000 to 10,000,000	1,498	9,771	9,771	11,121
From 10,000,000 to 50,000,000	3,693	9,525	9,525	10,939
From 50,000,000 to 100,000,000	1,833	4,206	4,206	3,363
From 100,000,000 to 500,000,000	6,718	4,195	4,195	5,523
Over 500,000,000	18,549			1,221
Time Deposits	262,719	280,817	272,330	298,781
Retail	179,287	194,123	184,239	201,595
Up to 1,000,000 SIT	3,899	17,360	17,360	16,751
From 1,000,000 to 10,000,000	24,688	119,975	119,975	129,267
From 10,000,000 to 50,000,000	14,071	37,942	37,942	43,278
From 50,000,000 to 100,000,000	6,339	4,730	4,730	4,938
From 100,000,000 to 500,000,000	21,972	4,232	4,232	5,068
Over 500,000,000 SIT	108,317			2,293
Corporate	83,432	86,694	88,091	97,186
Up to 1,000,000 SIT	420	389	389	199
From 1,000,000 to 10,000,000	2,396	3,116	3,116	3,511
From 10,000,000 to 50,000,000	10,025	10,550	10,550	10,477
From 50,000,000 to 100,000,000	10,208	12,151	12,151	8,500
From 100,000,000 to 500,000,000	28,875	32,856	32,856	37,325
Over 500,000,000 SIT		29,030	29,030	37,175
Total	**434,789**	**468,261**	**450,761**	**492,155**

Contracted external funding in 2005

On 14 January 2005, NKBM contracted a long-term loan with Zuercher Kantonalbank worth 8,000,000 Swiss francs with a maturity of five years, repayable in one instalment on maturity. These funds were allocated mainly for consumer and residential loans, as the demand for loans in Swiss francs was especially great in the first half of the year due to the low Swiss interest rate.

On 2 February 2005, NKBM signed a long-term loan agreement with Die Erste Bank der österreichischen Sparkassen AG and Kaerntner Sparkasse AG in the amount of €20 million and in September 2004, NKBM signed a loan agreement for €20 million with the Council of Europe Development Bank. The first drawing of funds, used for financing investment projects of small- and medium-sized companies, was realised by NKBM on 11 February 2005, and the second on 22 November 2005. The amount of each drawing was €10 million with a maturity of 10 years.

In June 2004, NKBM signed a frame loan agreement totalling €10 million with Austrian bank Raiffeisen Landesbank Kaernten. The first drawing in the amount of €4.5 million was realised in 2004, and the second one totalling €5 million in June 2005, each with a maturity of five years.

NKBM also entered into a syndicated loan agreement on 12 July 2005 totalling €240 million with a syndicate of 26 banks led by Bank Austria Creditanstalt AG, DZ Bank AG and WestLB AG, the highest loan amount ever contracted by NKBM on foreign financial markets, with a maturity of five years.

NKBM contracted four loans with the Slovenian Export Corporation during 2005 and two during the first half of 2006 to be used for refinancing exporters and a foreign currency loan.

In May 2006 NKBM issued a loan certificate in the amount of €135 million through HSH Nordbank AG. The maturity of the loan certificate is five years and it is repayable in one instalment on maturity.

The following table sets out NKBM's contracted external funding as of the date of this Prospectus:

Name of the Lender (MLA)	Loan Amount and currency	Date of the Loan Agreement	Tenor	Status of the Loan
Bank Austria Creditanstalt AG	EUR 240,000,000	12 July 2005	5 years	Senior
DZ Bank AG				
WestLB AG				
BAWAG	EUR 10,000,000	28 March 2001	7 years	Senior
BayernLB	EUR 60,000,000	20 February 2004	5 years	Senior
RZB AG				
Council of Europe Development Bank (CEB)	EUR 20,000,000	11 September 2004	10 years	Senior
European Bank for Reconstruction and Development (EBRD)	EUR 5,000,000	20 September 2000	6 years	Senior
Die Erste Bank AG	EUR 20,000,000	2 February 2005	5 years	Senior
Kaerntner Sparkasse AG				
HSH Nordbank AG	EUR 135,000,000	16 May 2006	5 years	Senior
ING Bank NV	EUR 50,000,000	3 June 2003	5 years	Senior
Nomura International PLC(1)	EUR 50,000,000	3 December 2004	7(5) years	Subordinated
RZB AG	EUR 5,000,000	7 November 2003	5 years	Senior
RZB AG(2)	EUR 30,000,000	16 December 2002	7(5) years	Subordinated
Raiffeisen Landesbank Kaernten	EUR 10,000,000	11 June 2004	5 years	Senior
Zuercher Kantonalbank	Swiss francs 8,000,000	14 January 2005	5 years	Senior

Notes:

(1) The funding provided on 3 December 2004 was in the form of subordinated floating rate notes issued by NKBM with Nomura International PLC acting as Lead Manager for such issue.

(2) The funding provided on 16 December 2002 was in the form of subordinated floating rate notes issued by NKBM with RZB AG acting as Lead Manager for such issue.

Treasury Operations

In January 2005, NKBM issued certificates of deposit in the amount of SIT 550 million. The maturity of the issue was one year with an interest rate of 3.80 per cent. Certificates of deposit were also issued in March 2006. The total value of this issue was SIT 900 million, with a maturity of two years and an interest rate of 3.73 per cent.

Securities Portfolio

NKBM's portfolio combines securities held for trading and debt securities not held for trading. Debt securities not held for trading are securities available for sale and investments are held to maturity.

NKBM's securities portfolio amounted to SIT 219,484 million as at 31 December 2005. Securities held for trading amounted to SIT 46,362 million, of which securities in SIT of financial and non-financial companies, banks and certificates of deposit amounted to SIT 7,741 million. The largest portion of this amount was represented by Petrol d.d., Infond holding d.d. and Infond ID d.d. shares.

Securities held for trading in FX amounted to SIT 38,621 million as at 31 December 2005. These are long-term investments.

Debt securities not held for trading amounted to SIT 173,122 million as at 31 December 2005, of which securities available for sale amounted to SIT 96,687 million. Tolar securities available for sale amounted to SIT 84,902 million (including treasury notes of the Bank of Slovenia and Republic of Slovenia ("RS") Bonds) and FX securities available for sale amounted to SIT 11,785 million.

Investments held to maturity in tolars amounted to SIT 44,050 million (RS bonds) and investments held to maturity in FX amounted to SIT 32,385 million, producing a total of SIT 76,435 million.

As at 30 June 2006, the securities portfolio, amounting to SIT 225,674 million, increased by SIT 6,190 million in comparison to 31 December 2005. Securities held for trading amounted to SIT 38,488 million, a decrease of SIT 7,784 million compared to the end of 2005. Securities portfolio in tolars increased mainly due to an increase in Petrol d.d. shares. Changes in securities held for trading in FX are due to the selling of Greek and German government bonds, which caused a portfolio decrease of SIT 13,538 million, and from the purchase of Landesbank Berlin AG (LBBER) and Landesbank Baden Wuerttemberg (LBW6) bonds, which produced an increase of SIT 5,612 million. Remaining differences are due to exchange rates changes.

As at 30 June 2006 securities not held for trading amounted to SIT 187,186 million, which is an increase of SIT 14,064 million compared to the end of 2005. This increase derives mainly from the purchase of tolar denominated RS bonds (RS 61 and RS 62) and from the purchase of FX Bank PBH (BPHPLD), Landesbanki Islands HF, Goldman Sachs Group Inc., Morgan Stanley and German government bonds.

The decrease in investments held to maturity was caused by the decrease of the Bank of Slovenia treasury notes portfolio.

Capital Adequacy

NKBM is required to comply with capital adequacy guidelines formulated by the Bank of Slovenia, which are based on the standards established by the Bank of International Settlements ("**BIS**"). These guidelines require a bank to maintain an adequate level of regulatory capital against risk-bearing assets and off balance sheet exposures. NKBM's total capital ratio is calculated by dividing its Tier 1 capital plus its Tier 2 capital by the aggregate of its risk-weighted assets and risk-weighted off balance sheet exposures. In accordance with these guidelines, NKBM must maintain a total capital ratio in excess of 8 per cent. As at 30 June 2006, NKBM's capital ratio was 9.81 per cent.

The subordinated loan to be advanced to NKBM is expected to qualify as Tier 2 Capital. Accordingly, NKBM's capital ratio is expected to increase to 11.3 per cent.

The following table sets out details of NKBM's capital base as at the dates indicated:

	As at 31 December		**As at 30 June**	
	2004	**2005**	**2005**	**2006**
	(SIT million)			
Tier 1 Capital				
Share Capital	5,840	5,840	5,840	5,840
Reserves	37,950	43,519	53,441	52,780
Tier 2 Capital	24,178	22,848	18,203	16,295
Total Tier 1 and 2 Capital	67,968	72,207	77,483	74,915
Investments in unconsolidated subsidiaries and associates	(11,044)	(10,241)	(8,522)	(7,835)
Total Tier 1 and Tier 2 Capital plus Adjustment	56,924	61,966	68,961	67,080
Total Risk-weighted assets(1)	407,358	470,884	434,647	538,062
Capital Adequacy Ratios (%)				
Tier 1 Ratio(2)	10.75	10.48	13.64	10.89
Total Capital Ratio(3)	13.97	13.16	15.87	12.47

Notes:

(1) Total of on-balance sheet and off-balance sheet Risk-weighted Assets.

(2) Ratio of Tier 1 Capital to Risk-weighted Assets.

(3) Ratio of Total Tier 1 and 2 Capital to Risk-weighted Assets.

Contingent Liabilities and Commitments

Off Balance Sheet Liabilities

In the normal course of business NKBM is a party to contracts for derivative financial instruments which represent a very low initial investment compared to the notional value of the contract.

Derivative financial instruments are initially recognised in the balance sheet at cost value (including transaction costs) and are not re-measured at their fair value. Certain derivative transactions, while providing effective economic hedges under NKBM's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading.

Subsidiaries and Affiliates

The table below sets out the principal subsidiaries of NKBM and its ownership interest as at 31 December 2005. Significant affiliates where NKBM has less than a 50 per cent. voting interest include ZM, Moja Nalozba-Pokojninska Druzba d.d. and Adria Bank AG.

		Net asset value as at 31 December 2004		Net asset value as at 31 December 2005		Bank's ownership and voting power interest as at 31 December 2005
	Country incorporation	Bank's share	Total	Bank's share	Total	
Fininvest d.o.o. Nova Gorica . .	Slovenia	241	241	—	—	—
KBM Invest d.o.o. Maribor . .	Slovenia	559	563	518	(522)	99.37
Gorica Leasing d.o.o	Slovenia	281	281	288	288	100.00
Fineko d.o.o. Maribor	Slovenia	337	337	372	372	100.00
KBM Infond d.o.o. Maribor . .	Slovenia	1,120	1,646	1,004	1,394	72.00
KBM Leasing d.o.o. Maribor . .	Slovenia	701	701	785	785	100.00
MBH d.o.o. Maribor(1) . .	Slovenia	1,029	1,029	—	—	—
Hotel Slavija	Slovenia	438	623	442	623	98.99
M-Pay d.o.o. Maribor	Slovenia	14	28	14	29	50.00
PBS d.d.	Slovenia	1,775	3,227	1,893	3,441	55.00
Total		**6,495**		**5,316**		

Note:

(1) All business activities of MBH d.o.o. were transferred to NKBM at the end of 2005 and MBH d.o.o. was removed from the Slovenian Register of Companies.

Technology

NKBM has recently completed a major upgrade to its server and storage infrastructure, with the assistance of IBM Slovenia. The new hardware is intended to ensure a higher level of flexibility, scalability and data security to NKBM. NKBM also completed work in December 2005 on a major new computer centre at Tezno, Maribor that meets advanced security and technical standards. NKBM invested SIT 704 million in this project. NKBM is currently involved in a number of projects in relation to its information technology systems and architecture. The most important project relates to the introduction of the euro, which will be introduced as the currency of Slovenia on 1 January 2007. To date, NKBM has met all of the milestones in relation to euro implementation prescribed by the Bank of Slovenia. NKBM's information technology and operations support are now fully euro-compliant. However, testing with other financial institutions has not yet been commenced.

NKBM also continues to transfer its operations from its "legacy" information systems to its new *Nobis* system.

In addition, the Bank of Slovenia has obliged all banks in Slovenia to draw up their financial standards in compliance with International Financial Reporting Standards for the financial year starting on 1 January 2006. NKBM has reported in accordance with IFRS for a number of years prior to the imposition of this statutory requirement. However, new standards have introduced changes in the calculation of specific provisions, in the treatment of some commissions as interest income, in the allowance for insurances and in the calculation of capital.

Property

NKBM owns the large majority of its property on a freehold basis. As at 31 December 2005, the net book value of NKBM's land and buildings was SIT 9,735 million. None of NKBM's property is pledged as collateral.

Legal Proceedings

NKBM is involved in legal proceedings arising in the ordinary course of its business. Although, the outcome of these proceedings is uncertain, NKBM does not believe that liabilities arising out of these claims will have a material adverse effect on its financial position or results of operations.

Anti-Money Laundering Compliance Procedures

NKBM has established an anti-money laundering department which reports directly to the Management Board. This department ensures that NKBM conducts its business in accordance with the valid legislation on money laundering, namely the Law on Prevention of Money Laundering which is fully compliant with EU directives concerning the prevention of money laundering. All procedures within NKBM are in compliance with this law and NKBM has developed written policies documenting the processes that it has in place to prevent, detect and report suspicious activities.

The central anti-money laundering regulatory body in Slovenia is the Office for the Prevention of Money Laundering which is organised within the Ministry of Finance. NKBM has to report regularly to this Agency on all suspicious activities and all transactions or series of transactions exceeding SIT 3 million.

Compliance with the law is checked by internal NKBM auditors, external auditors and through Bank of Slovenia on-site supervision.

All clients opening an account with NKBM must present a valid ID card for the account to be opened. Non-residents opening an account must present themselves in person as well as a valid ID card at the bank counter. All data collected from non-resident clients are updated on a yearly basis, and as a result each client must visit an NKBM branch in person yearly to present a valid ID and additional requested documentation for operating the account.

NKBM does not conduct any business with shell banks, politically exposed persons, higher risk customers or clients in any countries or territories deemed "non-cooperative" by the Financial Action Task Force on Money Laundering, an international organisation established following the G-7 Summit in Paris in 1989.

MANAGEMENT AND EMPLOYEES

Management

NKBM is governed by two management bodies, the Supervisory Board and the Management Board.

The Supervisory Board

The Supervisory Board is responsible for supervising the work of the Management Board in order to ensure that NKBM's operations remain in accordance with legal and statutory provisions. The current Supervisory Board was appointed in March 2005. The members of the Supervisory Board are listed below:

- Danijel Blejc, president, Modan Informatika d.o.o.
- Andrej Svetina, deputy president, GlaxoSmithKline – GSK d.o.o.
- Janez Erjavec, Pomurski sejem d.d.
- Anton Guzej, RTV Slovenija
- Anton Jurgetz, BMW Group
- Matjaž Koželj, Aktiva DZU d.o.o.
- Stanislav Lesjak, Paloma Horgen d.o.o.
- Tanja Markovič Hribernik, Faculty of Economics in Maribor
- Marija Ribič, J & M Ribič d.o.o.

Management Board

The Management Board of NKBM is responsible for the day-to-day management of NKBM. The current Management Board was appointed in May 2005. The members of the Management Board are listed below:

- Matjaž Kovačič
- Manja Skernišak

The business address of each of the above is Nova Kreditna banka Maribor d.d., Ulica Vita Kraigherja 4, 2505 Maribor, Slovenia.

The aggregate remuneration of members of the Management Board in 2005 was SIT 102.2 million.

The aggregate remuneration for members of the Supervisory Board in 2005 was SIT 11.3 million.

None of the members of the Supervisory Board and Management Board hold any shares or share options in NKBM. NKBM had no financial exposure to members of the Supervisory Board as at 31 December 2005 or as at 30 June 2006.

Auditors

Internal audits are a key component in the supervision of NKBM's operations, and to some extent in the performance of the NKBM Group as a whole. Internal auditors do not merely assess whether procedures, processes and the internal controls structure conform to the established policies, they also ascertain whether they are accomplishing NKBM's objectives. The effectiveness of risk management systems are also evaluated, as are control and governance processes and the procedures which have been implemented to improve efficiency. Through the years, the internal auditors performed their audit in accordance with the standards of internal auditing and the professional code of ethics adopted by the Slovenian Institute of Auditors.

Deloitte & Touche revizija d.o.o. acted as external auditors for the financial years from 1999 to 2003. For financial periods commencing on and after 1 January 2004, KPMG Slovenija d.o.o. has been appointed as external auditor. It has been established that in all respects the financial statements give a true and fair account of the financial situation of NKBM.

Employees

As at 31 December 2005 NKBM had a total of 1,546 employees, as compared to 1,566 as of 31 December 2004.

Around half of the workforce is a member of a union. NKBM's relations with the union are good and there has been no industrial action in the last three years.

NKBM has no unfunded pension liabilities.

SUMMARY FINANCIAL INFORMATION OF NKBM

The following tables contain selected financial information derived from NKBM's audited consolidated financial statements as at and for the years ended 31 December 2005 and 2004 prepared in accordance with IFRS and audited by KPMG Slovenija d.o.o. Such information is qualified by reference to and should be read in conjunction with the audited consolidated financial statements of NKBM as at and for the years ended 31 December 2005 and 2004, respectively, all of which are incorporated by reference in this Prospectus.

Consolidated Income Statement of NKBM

	Year ended 31 December			
	2005		2004	
	SIT	euro(1)	SIT	euro(1)
	(million)		*(million)*	
Interest income	37,560	156.78	38,130	159.05
Interest expense	(16,720)	(69.78)	(18,140)	(75.66)
Net interest income	**20,840**	**86.98**	**19,990**	**83.38**
Fee and commission income	11,156	46.57	9,881	41.21
Fee and commission expense	(2,383)	(9.95)	(2,084)	(8.69)
Net fee and commission income	**8,773**	**36.62**	**7,797**	**32.52**
Dividend income	600	2.50	307	1.28
Income from associates	1,389	5.80	1,104	4.60
Net trading income/(expenses)	4,268	17.81	2,621	10.93
Income from subsidiaries	161	0.67	0	0
Other operating income	3,824	15.96	3,869	16.14
Operating income	**39,855**	**166.36**	**35,688**	**148.86**
General administrative expenses	(20,550)	(85.78)	(19,832)	(82.72)
Depreciation and amortisation	(2,120)	(8.85)	(3,227)	(13.46)
Other expenses	(1,198)	(5.00)	(1,208)	(5.04)
Operating expenses	**(23,868)**	**(99.63)**	**(24,267)**	**(101.22)**
Impairment for losses	(5,122)	21.38	(5,080)	(21.19)
Profit before tax	**10,865**	**45.35**	**6,341**	**26.45**
Income tax expense	(2,889)	12.06	(3,513)	(14.65)
Profit for the period	**7,976**	**33.29**	**2,828**	**11.80**
Attributable to Minority Interest	143	0.60	137	0.57
Equity holders if the parent	**7,833**	**32.70**	**2,691**	**11.22**

Note:

(1) Unaudited euro amounts have been translated solely for the convenience of the reader at an exchange rate of SIT 239.5756 = €1.00, in respect of the period ended 31 December 2005 and SIT 239.7430 = €1.00 in respect of the period ended 31 December 2004.

Consolidated Balance Sheet of NKBM

	As at 31 December			
	2005		2004	
	SIT	**euro[1]**	**SIT**	**euro[1]**
	(million)		*(million)*	
Assets				
Cash and balances with Central Bank	17,991	75.10	27,832	116.09
Due from other banks	79,304	331.02	51,241	213.73
Financial assets at fair value through profit or loss	48,242	201.36	4,548	18.97
Loans and advances to customers	411,553	1,717.84	351,686	1,466.93
Available-for-sale financial assets	94,552	394.66	82,863	345.63
Held-to-maturity investments	119,970	500.76	143,462	598.40
Investments in associates and other investments	10,754	44.89	9,287	38.74
Unconsolidated investment in subsidiary	442	1.84	438	1.83
Intangible assets	4,740	19.78	4,273	17.82
Property and equipment	19,895	83.04	14,292	59.61
Accrued income, other assets and deferred tax assets	31,164	130.08	26,915	112.27
Total assets	**838,607**	**3,500.39**	**716,837**	**2,990.02**
Liabilities				
Due to other banks	5,459	22.79	8,521	35.54
Due to customers	554,932	2,316.31	517,019	2,156.56
Debt securities in issue	49,527	206.73	40,240	167.85
Other borrowed funds	118,831	496.01	52,642	219.58
Accruals, provisions, other liabilities and deferred tax liabilities	26,893	112.25	20,738	86.50
Subordinated liabilities	22,116	92.31	22,135	92.33
Total liabilities	**777,758**	**3,246.40**	**661,295**	**2,758.35**
Minority Interest	**1,938**	**8.09**	**1,911**	**7.97**
Shareholders' equity				
Share capital	5,840	24.38	5,840	24.36
Retained profits	7,153	29.86	5,298	22.10
Reserves	45,918	191.66	42,493	177.24
Equity attributable to equity holders of the parent	**58,911**	**245.90**	**53,631**	**233.70**
Total equity	**60,849**	**253.99**	**55,542**	**231.67**
Total liabilities and shareholders' equity	**838,607**	**3,500.39**	**716,837**	**2,990.02**

Note:

(1) Unaudited euro amounts as at 31 December 2005 have been translated solely for the convenience of the reader at an exchange rate of SIT 239.5756 = €1.00 and, as at 31 December 2004, at an exchange rate of SIT 239.7430 = €1.00.

The following tables contain selected financial information derived from NKBM's unaudited consolidated financial statements as at and for the six months ended 30 June 2006 and 2005 prepared in accordance with IFRS. Such information is qualified by reference to and should be read in conjunction with the unaudited consolidated financial statements of NKBM as at and for the six months ended 30 June 2006 and 2005, respectively, each of which are incorporated by reference in this Prospectus.

Consolidated Interim Income Statement of NKBM

	Six months ended 30 June			
	2006		**2005**	
	SIT	**euro(1)**	**SIT**	**euro(1)**
	(million)		*(million)*	
Interest income	21,303	88.90	18,859	78.72
Interest expense	(9,195)	(38.37)	(7,989)	(33.35)
Net interest income	**12,108**	**50.53**	**10,870**	**45.37**
Fee and commission income	5,672	23.67	5,272	22.01
Fee and commission expense	(1,212)	(5.06)	(1,063)	(4.44)
Net fee and commission income	**4,459**	**18.61**	**4,209**	**17.57**
Dividend income	21	0.09	515	2.15
Income from associates	0	0	0	0
Net trading income	(50)	(0.21)	1,145	4.78
Income from subsidiaries	0	0	145	0.61
Other operating income	1,422	5.93	1,416	5.91
Operating income	**17,960**	**74.95**	**18,299**	**76.38**
General administrative expenses	(10,325)	(43.09)	(9,855)	(41.14)
Depreciation and amortisation	(1,298)	(5.42)	(1,174)	(4.90)
Other expenses	0	0	0	0
Operating expenses	**(11,623)**	**(48.50)**	**(11,029)**	**(46.04)**
Impairment for losses	(1,907)	(7.96)	(2,882)	(12.03)
Profit before tax	**4,431**	**18.49**	**4,388**	**18.32**
Income tax expense	(327)	(1.36)	0	0
Income after tax	**4,758**	**19.86**	**4,388**	**18.32**
Attributable to Minority Interest	0	0	0	0
Equity holders of the parent	**4,386**	**18.30**	**4,800**	**20.04**

Note:

(1) Unaudited euro amounts have been translated solely for the convenience of the reader at an exchange rate of SIT 239.6285 = €1.00, in respect of the period ending 30 June 2006 and SIT 239.5691 = €1.00 in respect of the period ending 30 June 2005.

Consolidated Interim Balance Sheet of NKBM

	As at 30 June			
	2006		2005	
	SIT	euro[(1)]	SIT	euro[(1)]
	(million)		*(million)*	
Assets				
Cash and balances with Central Bank	23,320	97.32	19,968	83.35
Due from other banks, net	63,050	263.12	62,238	259.79
Financial assets at fair value through profit or loss	40,885	170.62	16,256	67.86
Loans and advances to customers	485,464	2,025.90	387,128	1,615.93
Available-for-sale financial assets	147,239	614.45	93,850	391.75
Held–to-maturity investments	85,369	356.26	135,071	563.81
Investments in associates and other investments	8,748	36.51	8,917	37.22
Unconsolidated investment in subsidiary	442	1.84	439	1.83
Intangible assets	4,913	20.50	4,336	18.10
Property and equipment	17,531	73.16	15,164	63.30
Accrued income, other assets and deferred tax assets	41,936	175.00	22,682	94.68
Total assets	**918,897**	**3,834.67**	**766,049**	**3,197.61**
Liabilities				
Due to other banks	13,225	55.19	6,335	26.44
Due to customers	584,520	2,439.28	535,483	2,235.19
Debt securities in issue	48,678	203.14	49,399	206.20
Other borrowed funds	158,554	661.67	63,869	266.60
Accruals, provisions, other liabilities and deferred tax liabilities	22,596	94.30	19,314	80.62
Subordinated liabilities	22,155	92.46	22,118	92.32
Total liabilities	**849,727**	**3,546.02**	**696,519**	**2,907.38**
Minority Interest	**2,316**	**9.66**	**2,143**	**8.95**
Shareholders' equity				
Share capital	5,839	24.37	5,839	24.37
Retained profits	20,051	83.68	21,640	90.33
Reserves	40,964	170.95	39,908	166.58
Equity attributable to equity holders of the parent	**66,855**	**278.99**	**67,387**	**281.28**
Total equity	**69,170**	**288.66**	**69,530**	**290.23**
Total liabilities and shareholders' equity	**918,897**	**3,834.67**	**766,049**	**3,197.61**

Note:

(1) Unaudited euro amounts as at 31 December 2005 have been translated solely for the convenience of the reader at an exchange rate of SIT 239.6285 = €1.00, in respect of the period ending 30 June 2006 and SIT 239.5691 = €1.00 in respect of the period ending 30 June 2005.

THE BANKING SECTOR IN SLOVENIA

Overview

At the end of 2005, there were 19 commercial banks operating in Slovenia (six of which were foreign subsidiaries), three foreign branches and three savings banks. Slovenia's banking sector is dominated by commercial banks, which accounted for 99.4 per cent. of total banking assets at 31 December 2005 (compared with 99.4 per cent. as at 31 December 2004). Savings banks and savings and loan undertakings made up the remaining 0.6 per cent. with savings banks accounting for 0.5 per cent. of the market (compared with 0.5 per cent. at 31 December 2004), and savings and loan undertakings 0.1 per cent. (0.1 per cent. at 31 December 2004).

The banking system is highly concentrated with the top two banks, NLB and NKBM, representing approximately 41.8 per cent. of total banking assets as at 31 December 2005 and the top five accounting for a combined 63.5 per cent. market share.

Concentration has however started to decrease slightly as foreign banks look to increase their presence in the Slovenian market. By the end of 2005, a total of 108 foreign banks, mostly from Austria, the UK and Germany, had notified the Bank of Slovenia that they intended to offer banking services in Slovenia.

The share of equity in the banking sector in Slovenia held by foreign investors amounted to 35.7 per cent. at the end of 2005, compared with 32.4 per cent. at 31 December 2004.

Ownership Structure

The following table shows the ownership structure of the total equity capital of the banking sector in Slovenia as at 31 December 2005:

	% of equity capital As at 31 December		
	2003	**2004**	**2005**
		(%)	
Shareholder			
Non-residents with more than 50% stake	16.6	16.5	19.6
Non-residents with less than 50% stake	15.8	15.9	15.5
Central government	19.4	19.1	18.2
Other domestic entities	48.2	48.6	46.1

Source: Bank of Slovenia

Total assets of banks and savings banks (including savings and loans undertakings) are rising annually as a proportion of GDP. At the end of 2005, total banking assets accounted for 94.5 per cent. of Slovenia's GDP, which is still relatively low, thus indicating there are potential growth opportunities for the banking system.

Assets

The following table sets out details of the average total assets of banks in Slovenia as a proportion of GDP:

	2003	**2004**	**2005**
Average total assets of banks and savings banks	4,841,493	5,367,482	6,288,341
GDP at current prices	5,747,168	6,191,161	6,651,500*
Average total assets (% GDP)	84.2	86.7	94.5

* Estimated for 2005.

Source: Bank of Slovenia

Trends in Financial Performance in 2005

In 2005, banks have seen an increase in their net profits, grossing up to SIT 51.48 billion, compared to SIT 36.76 billion in 2004. The average return on equity (ROE) rose from 13.3 per cent. in 2004 to 13.8 per cent. in 2005, while average return on assets decreased to 1.0 per cent. The net interest margin fell from 1.86 per cent. in 2004 to 1.84 per cent. in 2005.

In 2005 total assets of the Slovenian banking system increased by SIT 1,301 billion and at the year end amounted to SIT 6,980 billion. Foreign-owned banks continue to grow at an above-average rate. The nominal growth of the Slovenian banking system's total assets compared to last year was 22.9 per cent., while real growth was 20.1 per cent which is the highest annual real growth for the last five years.

As in previous years the principal source of financing in 2005 was borrowing from foreign banks. Foreign borrowing strengthened further in 2005 and grew by 83.3 per cent. (compared to 43.6 per cent. in 2004). Liabilities to foreign banks increased by SIT 846 billion and amounted to SIT 1,861 billion at the end of the year, 26.7 per cent. of total liabilities in the Slovenian banking sector. Banks used this money to increase their total assets by an average of 65 per cent. (compared to 49.6 per cent. in 2004). Most Slovenian banks increased borrowing from foreign banks compared with previous years, though smaller domestic banks did not follow this trend.

Banks directed the majority of the increase in total assets to lending to non-bank sectors, in particular to households and non-financial companies. This trend, which began in 2003, is still continuing.

Foreign currency lending increased in 2005, with 91.5 per cent. of all investments to non-bank sectors being made in foreign currency. Non-financial companies repaid SIT loans (SIT 53.4 billion), while increasing their foreign currency liabilities by SIT 473.4 billion. For private individuals, SIT borrowing continued to predominate, representing 60 per cent. of all approved loans. The proportion of lending to non-bank sectors in foreign currency increased by 11 per cent., reaching 45.9 per cent. by the end of 2005.

There were no large securities issues in 2005 in Slovenia, with one exception, as banks used other methods of financing. In 2005 deposits in foreign currency grew by 38.0 per cent., whereas deposits in SIT grew by only 14.9. per cent., largely due to increased borrowing from foreign banks. Foreign currency liabilities increased by SIT 740 billion, increasing by 7.8 per cent. as a proportion of total liabilities.

Solvency

The average capital adequacy ratio of banks in Slovenia as at 31 December 2005 was 10.56 per cent. Capital risk coverage at Slovenian banks has tended to be lower than that of banks in eurozone countries. This can be attributed to the Bank of Slovenia's more conservative approach regarding the items of capital and risk adjusted assets included in the calculation of capital adequacy.

Regulation

The Bank of Slovenia, the banking regulator, is committed to following the European Central Bank's regulatory directives and legislation. Banks will, in particular be expected to comply with Basel II.

The Bank of Slovenia is the bank of issue and the central bank of the Republic of Slovenia. It was established on 25 June 1991 when the Parliament of the Republic of Slovenia passed the central bank act, the Law on the Bank of Slovenia.

The Bank of Slovenia's primary task is to protect the stability of the domestic currency and to ensure the liquidity of payments within Slovenia and with other countries. The Bank of Slovenia is a non-governmental independent institution; it is obliged to present a report on its operations to the Slovenian Parliament every six months. It is the bank of banks and the lender of last resort; it is the supervisor of the banking system (but not of other financial intermediaries non-banks). The Bank of Slovenia is the banker of the government and conducts no corporate business and none with natural persons. The Bank of Slovenia is not allowed to take up loans abroad for its own account, nor for the account of third persons.

For the financial year commencing 1 January 2006 Slovenian banks will be required to prepare their financial statements in accordance with IFRS. New standards for 2006 have introduced changes in the calculations of specific provisions, in the treatment of some commissions as interest income, in the allowance for insurances and in the calculation of capital.

Slovenian banks are also preparing for the introduction of the euro as the currency of Slovenia with effect from 1 January 2007.

SUBORDINATED LOAN AGREEMENT

The following is the text of the Subordinated Loan Agreement, save for the signature pages and the Schedules.

This Agreement is made on 2 October 2006 **between**:

(1) **NOVA KREDITNA BANKA MARIBOR d.d.**, incorporated under the laws of Slovenia, whose registered office is at Ulica Vita Kraigherja 4, 2505 Maribor, Slovenia, as borrower (the "**Borrower**");

(2) **ING BANK N.V.**, incorporated under the laws of the Netherlands, whose registered office is at Amstelveenseweg 500, 1081 KL Amsterdam, The Netherlands, as lender (the "**Lender**"); and

(3) **ING BANK N.V.**, incorporated under the laws of the Netherlands, whose registered office is at Amstelveenseweg 500, 1081 KL Amsterdam, The Netherlands, as paying agent and calculation agent (the "**Agent**").

WHEREAS:

(A) The Lender has at the request of the Borrower agreed to make available to the Borrower a single disbursement subordinated credit term loan in the amount of €50,000,000 on the terms and subject to the conditions of this Agreement.

(B) It is intended by the Borrower that the Subordinated Loan (as defined below) will qualify as part of the Borrower's Upper Tier 2 Capital (as defined below) under applicable regulations of the Central Bank (as defined below).

It is agreed as follows:

1 Definitions and Interpretation

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person, (ii) any other Person who is a director or officer (A) of such specified Person or (B) of any Subsidiary of such specified Person. For the purpose of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Auditors**" means KPMG Slovenija d.o.o. or any internationally recognised firm of accountants approved by the Lender such approval not to be unreasonably withheld;

"**Authorised Signatory**" means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in the Schedule 1 hereto and, in the case of the Lender, a duly authorised officer of the Lender, from time to time;

"**Bankruptcy Event**" means any of the following events: (i) a competent court of Slovenia making an order for the liquidation (*likvidacija*) or declaration of bankruptcy (*stečaj*) of the Borrower; (ii) the Central Bank adopting a decision to liquidate the Borrower; or (iii) a general meeting of shareholders of the Borrower adopting a decision to liquidate the Borrower;

"**Bankruptcy Proceedings**" means any court, administrative or corporate proceedings in Slovenia purporting to liquidate or to declare the bankruptcy of the Borrower;

"**Capital Adequacy Regulations**" means the Sklep o kapitalski ustreznosti bank in hranilnic (Regulation on Capital Adequacy of Banks and Savings Banks) (Uradni list RS, No. 24/2002, 85/2002, 22/2003, 36/2004, 68/2004, 103/2004, 124/2004, 62/2005, 67/2005, 74/2006) of Slovenia, as may be from time to time amended or re-enacted, and any other minimum capital, capital or other requirements specified for banks applicable to the Borrower;

"**Central Bank**" means the Banka Slovenije or any successor as banking supervisory authority of Slovenia;

"**Default**" means an event specified in Clause 14.1;

"**Drawdown Date**" means 5 October 2006 or, if different, the date on which the Notes are issued and the subscription monies therefor paid under the Representation Agreement;

"**Fees and Expenses Side Letter**" means the fees and expenses side letter dated 2 October 2006 among, *inter alia*, the Borrower and the Lender;

"**Funding Documents**" means this Agreement, the Representation Agreement and the Notes themselves;

"**Group**" means the Borrower and its Subsidiaries from time to time taken as a whole;

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board as amended, supplemented or re-issued from time to time;

"**Indebtedness**" means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above, provided that such defined term does not include any indebtedness owed to the state budget, local budget and non-budgetary funds on account of taxes which are not overdue;

"**Initial Interest Term**" means the period from (and including) the Drawdown Date to (but excluding) the Interest Payment Date falling in October 2016;

"**Interest Payment Date**" means 5 January, 5 April, 5 July and 5 October in each year in which the Subordinated Loan remains outstanding subject to adjustment in accordance with Clause 6.2.1;

"**Interest Period**" means any of those periods mentioned in Clause 4;

"**Interest Rate**" shall have the meaning set out in Clause 6.2.3;

"**Margin**" means, in respect of any Interest Period which ends on or before the expiry of the Initial Interest Term, 1.6 per cent. per annum, and in respect of any Interest Period which ends thereafter, 3.1 per cent. per annum;

"**Notes**" means the €50,000,000 floating rate perpetual notes proposed to be issued by the Lender pursuant to the Lender's €50,000,000,000 Global Issuance Programme on or about 5 October 2006 for the sole purpose of financing the Subordinated Loan;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two officers of the Borrower (at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower) and in a form which is satisfactory to the Lender;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, organisation, state or agency of a state or any other entity, whether or not having separate legal personality;

"**Potential Bankruptcy Event**" means an event or circumstance which could, with the giving of notice, lapse of time, making of any determination, order or declaration or adoption of a decision or any combination thereof, become a Bankruptcy Event;

"**Representation Agreement**" means the agreement dated 2 October between the Lender and the Borrower;

"**Same-Day Funds**" means euro funds settled through the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System or such other funds for payment in euros as the Lender may at any time determine to be customary for the settlement of international transactions in London of the type contemplated hereby;

"**Senior Creditors**" means any and all creditors of the Borrower (which expression shall, for the avoidance of doubt, not include holders of any shares issued by the Borrower in their capacity as holders of such shares), including creditors whose claims are subordinated to the claims of unsubordinated creditors or other subordinated creditors, other than those whose claims are, or are expressed to rank, pari passu with, or junior to, the claims of the Lender under this Agreement;

"**Slovenia**" means the Republic of Slovenia and any province or political sub-division thereof or therein;

"**Step-Up Interest Term**" means the period from (and including) 5 October 2016;

"**Subordinated Loan**" has the meaning set forth in Clause 2;

"**Subsidiary**" means a company or corporation (A):

(a) which is controlled, directly or indirectly, by another company or corporation (B); or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by B,

and, for these purposes, A shall be treated as being controlled by B if B is able to direct A's affairs and/or to control the composition of A's board of directors or equivalent body;

"**TARGET Settlement Day**" means any day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) system is open;

"**Taxes**" means any taxes, levies, duties, imposts, assessments, governmental charges or other charges or withholding of a similar nature (including interest and penalties payable in connection with any failure to pay or delay in paying the same); and

"**Upper Tier 2 Capital**" has the meaning ascribed to "Hybrid Capital Instruments" (*hibridni instrumenti*) qualifying as "supplementary capital 1" (*dodatni kapital 1*) in the Capital Adequacy Regulations in force as at the date hereof.

1.2 Interpretation

Any reference in this Agreement to:

(a) the "**Borrower**" or the "**Lender**" includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;

(b) a "**Business Day**" means a day (other than a Saturday or Sunday) which is a TARGET Settlement Day and on which banks generally are open for business in London, Amsterdam and Ljubljana;

(c) the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is tolar and the second currency is euro (or vice versa), by the Central Bank, at or about 10.00 a.m. (London time or, as the case may be, Central European time) on such date for the purchase of the first currency with the second currency;

(d) a "**month**" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "**months**" shall be construed accordingly); and

(e) "**VAT**" means value added tax, including any similar tax which may be imposed in place thereof from time to time.

1.3 Currency References

"**€**" and "**euros**" denote the currency introduced at the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union and "**tolar**" denotes the lawful currency of Slovenia.

1.4 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 Headings

Clause and Schedule headings are for ease of reference only.

1.6 Amended Documents

Save where the contrary is indicated, any reference in this Agreement to this Agreement, the Fees and Expenses Side Letter, the Representation Agreement or any other agreement or document shall be construed as a reference to this Agreement, the Fees and Expenses Side Letter, the Representation Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2 The Subordinated Loan

2.1 Grant of the Subordinated Loan

The Lender grants to the Borrower and the Borrower hereby agrees to borrow from the Lender upon the terms and subject to the conditions hereof, a single disbursement subordinated term loan facility in the amount of €50,000,000 (the "**Subordinated Loan**").

2.2 Purpose and Application

The Subordinated Loan is intended to be counted by the Borrower as part of its Upper Tier 2 Capital and the proceeds of the Subordinated Loan shall be used by the Borrower to fund additional euro loans to its corporate and individual customers and otherwise for general corporate purposes and, without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

2.3 Subordination and Other General Characteristics of the Subordinated Loan

2.3.1 On the occurrence of a Bankruptcy Event and so long as such Bankruptcy Event is continuing, (i) the claims of the Lender hereunder shall be subordinated in right of payment to the claims of all Senior Creditors and (ii) the Lender shall not be entitled to claim for or receive or retain any amount payable hereunder unless and until all amounts due to Senior Creditors have been paid in full. The provisions of this Clause 2.3 shall take precedence over any other provision contained herein.

2.3.2 In addition, in order for the Subordinated Loan to qualify as part of the Borrower's Upper Tier 2 Capital, it is hereby agreed between the Lender and the Borrower that:

(i) the Subordinated Loan shall be of indeterminate maturity;

(ii) the Borrower's obligations under the Subordinated Loan shall be unsecured;

(iii) the Subordinated Loan shall be available to the Borrower for the purpose of covering its losses in the ordinary operations of the Borrower as well in case of its winding-up;

(iv) in no event shall any amounts under the Subordinated Loan become due and payable by the Borrower at the initiative of the Lender or otherwise without the Central Bank's consent (if applicable), except in the event of the winding-up of the Borrower; and

(v) the Borrower shall have the right to defer payment of interest under the Subordinated Loan as provided in Clause 6.7.

2.3.3 The provisions of this Clause 2.3 shall take precedence over any other provision contained herein.

2.4 Set-Off, Counterclaim, Retention etc.

The Lender may not exercise, claim or plead any right of set-off, counter-claim or retention or any similar right in respect of any amount owed to it by the Borrower arising under or in connection with the Subordinated Loan and the Lender shall be deemed to have waived all such rights.

3 Availability of the Subordinated Loan

3.1 Drawdown

Subject to the conditions hereof, the Subordinated Loan will be available by way of a single advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Subordinated Loan, on the Drawdown Date by payment of the Subordinated Loan in accordance with the following payment instructions: Deutsche Bank AG; swift code: DEUTDEFF; account number: 100-93623441000; for the account of Nova Kreditna banka Maribor d.d.; swift code KBMAS12X provided that the Subordinated Loan will only be advanced if:

3.1.1 the Lender has confirmed to the Borrower that it has received all of the documents listed in the Schedule 1 hereto and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree;

3.1.2 the Lender has received (i) the full amount of the proceeds of the issue of the Notes and such proceeds shall be and remain available in full to be on-lent to the Borrower and (ii) in full the amount referred to in Clause 3.2; and

3.1.3 as at the Drawdown Date (i) no Bankruptcy Proceedings, Potential Bankruptcy Event or Bankruptcy Event have or has occurred; (ii) the representations and warranties of the Borrower set out in Clause 11 are true and accurate with respect to the facts and circumstances then subsisting and (iii) the Borrower is in full compliance with all of its obligations under this Agreement and there shall have been no breach of any such obligations.

3.2 Payment of Fees

In consideration of the Lender advancing the Subordinated Loan to the Borrower, the Borrower hereby agrees that it shall pay in Same-Day Funds such fees and expenses which are required to be paid by the Borrower in accordance with the Fees and Expenses Side Letter.

4 Interest Periods

Each year for which the Subordinated Loan is outstanding shall be divided into successive quarterly periods, each of which (other than the first, which shall commence on (and shall include) the Drawdown Date) shall start on (and shall include) an Interest Payment Date and shall end on (but shall exclude) the first, or the next following, Interest Payment Date (each, an "**Interest Period**").

5 Appointment of the Agent

Each other party to this Agreement appoints the Agent to act as its agent under and in connection with this Agreement at its specified office referred to in Clause 23 below. The Agent accepts its appointment hereunder and shall perform the duties required of it by this Agreement.

6 Payment and Calculation of Interest and Suspension of Interest

6.1 Payment of Interest

As set out in Clause 17.1 but subject to Clause 6.7 the Borrower shall, not later than 10.00 a.m. (London time) one Business Day prior to each Interest Payment Date, in respect of the relevant Interest Period, pay to the Agent accrued interest (calculated to (but excluding) the last day of the relevant Interest Period) on the outstanding principal amount of the Subordinated Loan. The Agent will then forward such payments to the Lender in accordance with the Lender's instructions (such instructions to be provided four Business Days prior to the relevant Interest Payment Date) (i) on the same day as such payment is received by the Agent, if the Agent is the same entity as the Lender under this Agreement, or (ii) otherwise on the next following Business Day. For the avoidance of doubt, interest shall not be capitalised and shall not be paid in advance of the disbursement of the Subordinated Loan.

6.2 Calculation of Interest

6.2.1 The Subordinated Loan bears interest from the Drawdown Date and such interest will be payable on an Interest Payment Date. If any Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding Business Day.

6.2.2 The Subordinated Loan will cease to bear interest from the due date for repayment hereunder unless payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest in accordance with this Clause (both before and after judgment) until the day on which all sums due in respect of the Subordinated Loan up to that day are received by or on behalf of the Lender.

6.2.3 The rate of interest from time to time in respect of the Subordinated Loan (the "**Interest Rate**") will be determined by the Agent on the following basis:

(i) On the second TARGET Settlement Day prior to each Interest Period (the "**Interest Determination Date**"), the Agent will determine the offered rate for three month euro deposits ("**Euribor**") as at 11.00 a.m. (London time) on the Interest Determination Date in question as displayed on the display designated as Reuters page "EURIBOR01" (or such other page or pages as may replace it for the purpose of displaying such information) (the "**Screen Rate**"). The Interest Rate for such Interest Period shall be the aggregate of the Screen Rate and the Margin.

(ii) If such offered rate does not appear, or if the relevant page is unavailable, the Agent will instead request the principal Euro-zone office of each of the four major banks in the Euro-zone interbank market selected by the Agent (the "**Reference Banks**") to provide the Agent with its offered quotation to leading banks in the Euro-zone interbank market for Euribor as at 11.00 a.m. (London time) on the Interest Determination Date in question. If at least two of the Reference Banks provide the Agent with such offered quotations, the Interest Rate for such Interest Period shall be the aggregate of the arithmetic mean (rounded upwards, if necessary, to the nearest fifth decimal place) of such offered quotations and the Margin.

(iii) If on any Interest Determination Date on which the provisions of sub-paragraph (ii) above apply, one only or none of the Reference Banks provides the Agent with such a quotation, the Interest Rate for the next Interest Period shall be the rate which the Agent determines to be the aggregate of the Margin and the arithmetic mean (rounded upwards, if necessary, to the fifth decimal place) of the rates which leading banks in the Euro-zone selected by the Agent are quoting, on the relevant Interest Determination Date, for euro deposits for a period of three months commencing on the relevant Interest Determination Date, to leading European banks, except that, if the banks so selected by the Agent (being at least three in number) are not quoting as mentioned above, the Interest Rate shall be the Interest Rate in effect for the last preceding Interest Period to which one of the preceding sub-paragraphs of this Clause 6.2.3 shall have applied.

(iv) Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period the day-count fraction used will be the actual number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by 360.

6.3 Determination of Interest Rate and Calculation of Interest Amount

The Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Interest Rate and calculate the amount of interest payable (the "**Interest Amount**") for the relevant Interest Period. The Interest Amount shall be calculated by applying the Interest Rate to the outstanding principal amount of the Subordinated Loan, multiplying such product by the actual number of days in the Interest Period concerned divided by 360 and rounding the resulting figure to the nearest €0.01 (€0.005 being rounded upwards).

6.4 Notification of Interest Rate and Interest Amount

The Agent will cause the Interest Rate and the Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Borrower and the Lender in accordance herewith as soon as possible after their determination but in no event later than the second Business Day thereafter. If the Subordinated Loan becomes due and payable under Clause 14, the accrued interest payable in respect of the Subordinated Loan shall nevertheless continue to be calculated as previously by the Agent in accordance with this Clause (except as otherwise provided by law) but no publication of the Interest Rate or the Interest Amount so calculated need be made unless the Lender otherwise requires.

The Interest Amount, the Interest Rate and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Interest Period or in the event of proven or manifest error.

6.5 Determinations of Lender Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Clause 6 by the Lender (or its agent), shall (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Borrower and (in the absence as aforesaid) no liability shall attach to the Lender in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6.6 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Subordinated Loan outstanding on the day of the calculation is also the amount of the Subordinated Loan outstanding on the last day of the relevant Interest Period.

6.7 Deferral of Payments

The Borrower may elect, by notice in writing to the Lender (a "**Deferral Notice**"), from time to time and at any time, to defer the payment of interest in respect of the Subordinated Loan if a Deferral Event (as defined below) has occurred and, accordingly, on the giving of such notice the due date for payment of such interest ("**Deferred Interest**") shall be so deferred and the Borrower shall not be obliged to make payment thereof on the date the same would otherwise have become due and payable, and such deferral of payment shall not constitute a default by the Borrower for any purpose. A Deferral Notice shall only be effective if it is accompanied by documents evidencing the occurrence of a Deferral Event unless such documents have already been provided to the Lender in accordance with Clause 13.2.

Interest will not accrue on any interest payment so deferred. The Borrower may give to the Lender written notice of its intention to pay the whole or any part of the Deferred Interest (a "**Payment Notice**") and the relevant Deferred Interest (or part thereof) shall become due and payable on the seventh day after the date of such Payment Notice. In addition, the aggregate amount of Deferred Interest which remains unpaid shall become due and payable in full upon (i) the occurrence of a Bankruptcy Event or (ii) the payment by the Borrower of any amounts owing to creditors whose claims rank pari passu with or junior to the claims of the Lender hereunder or (iii) the declaration by the Borrower of dividends on its ordinary shares or any other shares in issue or (iv) a repayment under Clause 7 below.

"**Deferral Event**" means (i) the latest available audited unconsolidated financial statements of the Borrower prior to the applicable Interest Payment Date show no net profit in the profit and loss accounts of such financial statements for such financial year and (ii) no dividends are declared and paid by the Borrower during the financial year in which the applicable Interest Payment Date occurs. For the purposes of this Clause 6.7, the audited unconsolidated financial statements are to be prepared in accordance with IFRS.

6.8 Period of Suspension

The Borrower shall take all reasonable steps to remedy the conditions giving rise to any suspension pursuant to Clause 6.7 and shall pay the full amount of interest payment which has been suspended within 30 Business Days after the relevant conditions giving rise to the suspension cease to exist.

7 Repayment

7.1 Maturity of Subordinated Loan

The Subordinated Loan has no maturity and shall only become repayable in accordance with this Clause 7.

7.2 Approval of the Central Bank

Any repayment of the Subordinated Loan pursuant to this Clause 7 shall only be permitted if the Borrower has obtained a prior approval of the Central Bank approving such repayment.

7.3 Borrower Repayment Upon Loss of Capital Treatment

The Borrower shall have the right to repay the Subordinated Loan in whole (but not part only) together with accrued interest thereon (up to but excluding the date of such payment) and any Deferred Interest on any Interest Payment Date if the Subordinated Loan has ceased to have regulatory capital treatment as an Upper Tier 2 Capital loan under the Capital Adequacy Regulations, provided that written notice thereof, together with an Officers' Certificate confirming the existence of the relevant circumstances permitting such a repayment, shall be given to the Lender not less than 30 days nor more than 60 days prior to the date of repayment.

7.4 Borrower Repayment During Step-Up Interest Term

The Borrower may, on any Interest Payment Date during the Step-Up Interest Term upon no less than 30 days' nor more than 60 days' prior written notice to the Lender to that effect, repay the whole (but not part only) of the outstanding principal amount of the Subordinated Loan together with accrued interest (up to but excluding the date of such payment) and any Deferred Interest.

7.5 Borrower Repayment for Tax Reasons and Change in Circumstances

If, as a result of the application of or any amendments to or change in the laws or regulations of Slovenia or the Netherlands or of any political sub-division thereof or any authority therein having power to tax (the "**Taxing Jurisdiction**"), the Borrower would thereby be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 8.1 or to pay additional amounts as provided in Clause 8.2, or, if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10 and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, upon not less than 30 days' nor more than 60 days' prior written notice to the Lender to that effect, providing the documentation specified in the next sentence in a form reasonably satisfactory to the Lender and specifying the date of payment, on any Interest Payment Date repay the whole (but not part only) of the outstanding principal amount of the Subordinated Loan, together with any amounts then payable under Clauses 8.1 or 8.2, accrued interest (up to but excluding the date of such payment) and any Deferred Interest. In conjunction with the delivery of any notice of repayment pursuant to this Clause 7.5, the Borrower shall deliver to the Lender an Officers' Certificate, that the Borrower would be required to increase the amount payable or to pay additional amounts and such obligation cannot be avoided by the Borrower taking reasonable measures, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction.

No notice under this Clause 7.5 shall be given earlier than 60 days prior to the earliest date on which the Borrower would be obliged to pay such amounts under Clause 8.1 or Clause 8.2.

7.6 Notice of Repayment

Any notice given by the Borrower pursuant to Clauses 7.3, 7.4 or 7.5 shall be irrevocable, shall specify the date upon which repayment is to be made, shall be accompanied by a copy of the Central Bank's approval referred to in Clause 7.2 and shall oblige the Borrower to make such repayment on such date.

7.7 Repayment Amounts

The Borrower shall, not later than 10.00 a.m. (London time) one Business Day prior to the date of repayment, pay to the Agent the outstanding principal amount of the Subordinated Loan, all accrued interest (calculated to (but excluding) the date of such repayment), any Deferred Interest and all other amounts owing to the Lender hereunder. The Agent will then forward such payments to the Lender in accordance with the Lender's instructions. The Borrower shall indemnify the Agent and/or the Lender, as the case may be, on demand against any costs and expenses reasonably incurred and properly documented by the Agent and/or the Lender, as the case may be, on account of any repayment made in accordance with this Clause 7.

7.8 The Borrower may not repay the Subordinated Loan pursuant to this Clause 7 if to do so would breach the regulations of the Central Bank. No amount repaid under this Agreement may subsequently be reborrowed.

8 Taxes

8.1 Additional Amounts

All payments to be made by the Borrower hereunder shall be made in full without set off or counterclaim, free and clear of and without deduction for or on account of any present or future Taxes imposed or levied by or on behalf of any taxing authority of or in, or having authority to tax in, the Netherlands or Slovenia or any country or state from or through which the Borrower makes payment hereunder in connection herewith ("**Relevant Taxes**"), unless such withholding or deduction of Relevant Taxes is required by law, in which case the Borrower shall, on the due date for such payment, increase the amounts payable as may be necessary to ensure that the Lender receives a net amount in euros which, following any such deduction or withholding on account of Relevant Taxes, shall be equal to the full amount which it would have received had the payment not been made subject to Relevant Taxes so withheld or deducted and shall deliver to the Lender without undue delay, evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant authority. If the Lender pays any amount in respect of such Relevant Taxes, the Borrower shall reimburse the Lender in euros on demand an amount equal to such payment(s).

Provided, however that:

8.1.1 this Clause 8.1 shall not apply to any Tax assessed on the Lender under the laws of the jurisdiction of which the Lender is a resident and acting through for tax purposes, if such Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by the Lender; and

8.1.2 the amounts payable by the Borrower shall not be increased in accordance with this Clause 8.1 if (and to the extent that) the withholding or deduction of Relevant Taxes is required as a consequence of the Person entitled to the payment from which the Relevant Taxes are withheld or deducted (and regardless of whether such person applies such payment towards satisfaction of any payment obligations of such Person) not being a bank which is, for tax purposes, a resident of The Netherlands otherwise than as a result of a transfer of the Lender's rights hereunder in accordance with Clause 19.3.

8.2 Tax Indemnity

Without prejudice to the provisions of Clause 8.1, if the Lender notifies the Borrower that:

8.2.1 the Lender (as issuer of the Notes) is obligated to make any deduction or withholding for or on account of any Taxes (other than Taxes assessed on the Lender by reference to its net income) from any payment which the Lender (as issuer of the Notes) is obliged to make under or in respect of the Notes, and the Lender (as issuer of the Notes) is required under the terms and conditions of the Notes to pay additional amounts to the holders of the Notes in connection therewith, the Borrower agrees to pay to the Lender, at least one Business Day prior to the date on which payment is due on the Notes (and otherwise in accordance with the terms of this Agreement), such additional amounts as are equal to the additional payments which the Lender would be required to make under the terms and conditions of the Notes in order that the net amount received by each holder of Notes is equal to the amount which such holder would have received had no such withholding or deduction been required to be made under or in respect of the Notes; and

8.2.2 the Lender (as issuer of the Notes) is required to pay any Tax (other than Taxes assessed on the Lender by reference to its net income) in relation to any payment received by it under this Agreement or any Funding Document, or if any liability in respect of any such payment is at any time asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, written demand made by the Lender, indemnify the Lender against such properly documented payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith.

Provided, however, that:

(a) the Lender shall, upon the receipt of any reimbursement of the sums or additional payments which the Lender has paid as contemplated by Clause 8.2.1 (including, without limitation, in the event that the holders of the Notes are not entitled to such additional payments under the terms and conditions of the Notes), pay such amounts to the Borrower less any applicable taxes, duties or other costs (it being understood that the Lender shall have no obligation to determine whether any holder of Notes or any payee is entitled to such additional amount); and

(b) the Lender shall not be in a worse after-tax position than it would have been in had it not been obliged to make such withholding or deduction as set out in Clause 8.2.1.

For the avoidance of doubt, the provisions of this Clause 8.2 shall not apply to any withholding or deductions of Taxes with respect to the Subordinated Loan which are subject to payment of additional amounts under Clause 8.1.

8.3 Tax Claims

If the Lender intends to make a claim pursuant to Clause 8.2, it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make any such withholding or deduction or to pay any such tax (as contemplated by Clause 8.2) provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.4 Tax Credits and Tax Refunds

8.4.1 If an additional amount is paid under Clause 8.1 or 8.2 by the Borrower and the Lender determines in its absolute discretion (acting in good faith) that it has received or been granted a credit against, a relief or remission for, or a repayment of, any tax, then, if and to the extent that the Lender, in its absolute discretion (acting in good faith), determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such additional payment or, in the case of an additional payment made or indemnity payment pursuant to Clause 8.2, with reference to the liability, expense, cost or loss to which the payment giving rise to the additional payment or indemnity payment relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its absolute discretion (acting in good faith), have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense, cost or loss, provided that the Lender shall not be obliged to make any payment under this Clause 8.4 in respect of such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and provided that the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so would leave it (after the payment) in a worse after-tax position than it would have been in had the increased or additional amount not been required under Clauses 8.1 or 8.2. Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.4 shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its tax affairs generally or any computations in respect thereof.

8.4.2 If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the Slovenian tax authorities (a) such Tax is deducted or withheld by the Borrower and pursuant to Clauses 8.1 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of Tax as referred to above, the Borrower applies on behalf of the Lender to the relevant Slovenian tax authorities for a tax refund and such tax refund is credited by the Slovenian tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so will leave it (after the payment) in no worse an after-tax position than it would have been in had no such withholding or deduction been made or required to be made to a bank account of the Borrower provided that such an account has been specified for that purpose by the Borrower.

9 Tax Receipts

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant tax or other authority (subject to any right which the Borrower may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Lender, within 45 days after it has made such payment to the applicable authority, an original receipt (or a certified copy thereof) issued by such authority evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment. The Borrower shall also provide an English translation of such receipts.

10 Changes in Circumstances

10.1 Increased Costs of the Lender

If, by reason of (i) any change in, repeal of or introduction of any tax, law (including any statute, treaty, order, decree, ordinance or similar legislative or executive action), regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned), letter, instruction, request, notice, guideline, policy or practice statement (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practices of financial institutions in the country concerned) or in any decision or ruling thereon, or in the interpretation or application thereof by any other person charged with the administration thereof or other competent authority in Slovenia or the Netherlands, which, in each case, occurs on or after the date of this Agreement and/or (ii) any compliance by the Lender in respect of the Subordinated Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority (including, for the avoidance of doubt, any recommendations regarding capital adequacy standards published by the Basle Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements):

10.1.1 the Lender incurs or will incur an additional or increased cost as a result of the Lender entering into or performing its obligations (including the obligation to advance the Subordinated Loan) under this Agreement (excluding tax payable by the Lender by reference to its net income); or

10.1.2 the Lender becomes or will become liable to make any additional payment on account of tax or otherwise (not being a tax imposed on its net income) on or calculated by reference to the amount of the Subordinated Loan and/or to any sum received or receivable by the Lender hereunder, or the rate of return from the Subordinated Loan on the Lender's (or its Affiliate's) total capital or the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

10.1.3 the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or forgoes any interest or other return on or calculated by reference to the gross amount of the Subordinated Loan, then, subject in each case to Clause 10.2, upon demand by the Lender to the Borrower:

(a) (in the case of Clauses 10.1.1, 10.1.2 and 10.1.3) the Borrower shall on demand pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased costs, payment or foregone interest or other return; and

(b) (in the case of Clause 10.1.2 the Borrower shall, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction;

provided, however that in each case the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is attributable to this Agreement and further provided that the Borrower shall not be obliged to pay any additional amount in connection with increased costs, reduced amount or payment made or foregone which:

(i) is attributable to a deduction or withholding of Relevant Taxes (as defined in Clause 8.1); or

(ii) is compensated under Clause 8.2.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1, it shall promptly notify the Borrower thereof and provide (to the extent reasonably practicable) a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 above) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall (to the extent reasonably practicable) demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

10.3 Mitigation

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clauses 8.1, 8.2 or 10, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps (at the Borrower's expense) to remove such circumstances or mitigate the effects of such circumstances including (without limitation) by the change of its lending office or transfer of its rights or obligations under this Agreement to another bank, provided that the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition.

11 Representations and Warranties of the Borrower

The Borrower makes the representations and warranties set out in Clause 11.1 to Clause 11.15 (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 Status

It and each of its Subsidiaries is validly existing under Slovenian law, is not in liquidation or receivership, has full power and authority to own, lease and operate its properties and conduct its business as currently conducted, and that the Borrower is able lawfully to execute and perform its obligations under this Agreement.

11.2 Governmental Approvals

All actions or things required to be taken, fulfilled or done by the laws and regulations of Slovenia (including without limitation, authorisation, order, licence or qualification of or with any court or governmental agency), and all registrations, filings or notarisations required by the laws and regulations of Slovenia in order to ensure (i) that the Borrower and each of its Subsidiaries is able to own its assets and carry on its business as currently conducted and, if not, the absence of which could not reasonably be expected to have a material adverse effect on the Borrower's ability to perform its obligations under this

Agreement and (ii) the due execution, delivery, validity and performance by the Borrower of this Agreement have been obtained, fulfilled or done and are in full force and effect.

11.3 Pari Passu Obligations

Under the laws of Slovenia in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement in relation to payment of the Subordinated Loan and other payments under this Agreement will be subordinate in right of payment to the claims of the Senior Creditors.

11.4 No Deduction

Payments of interest by the Borrower to the Lender under this Agreement may be made without withholding or deduction on account of Slovenian withholding tax.

11.5 Governing Law

Under the laws of Slovenia in force at the date of this Agreement, in any proceedings taken in Slovenia in relation to this Agreement, the choice of English law as the governing law of this Agreement will be recognised and enforced in Slovenia after compliance with the applicable procedural rules in Slovenia.

11.6 Validity and Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Slovenia have been done, fulfilled and performed.

11.7 Valid and Binding Obligations

The obligations expressed to be assumed by the Borrower in this Agreement are legal, valid and binding and, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and to general principles of equity, enforceable against it in accordance with their terms.

11.8 No Stamp Taxes

Under the laws of Slovenia in force at the date of this Agreement, the execution and delivery of this Agreement is not subject to any Taxes in Slovenia (including, without limitation, any transfer tax, stamp duty or similar levy).

11.9 No Bankruptcy Proceedings or Event

No Bankruptcy Proceedings have occurred or are occurring and no event has occurred or circumstance has arisen which constitutes a Bankruptcy Event or Potential Bankruptcy Event.

11.10 No Other Default

The Borrower is not in breach of or default under any other agreement of instrument in relation to Indebtedness by which it is bound other than any breach or default that would not have a material adverse effect on the Borrower's ability to perform or comply with its obligations under this Agreement.

11.11 No Material Proceedings

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (b) adversely affect the right and power of the Borrower to enter into this Agreement or (c) have a material adverse effect on the business, financial condition or prospects of the Borrower or on the Borrower's ability to perform or comply with its obligations under this Agreement.

11.12 No Material Adverse Change

Since 31 December 2005 there has been no material adverse change or any development involving a prospective material adverse change in the financial condition, business prospects, properties, shareholders' equity or results of operations of the Group.

11.13 No Undisclosed Material Assets or Liabilities

Neither the Borrower nor any other member of the Group had, as at the date as of which the audit report of the Auditors on the financial statements of the Borrower for the year ended 31 December 2005 was prepared, any material assets or liabilities (contingent or otherwise) which were not disclosed (including in the notes thereto) or adequately reserved against in accordance with IFRS nor were there at that date any unrealised or anticipated losses of the Borrower or the Group arising from commitments entered into by it which were not so disclosed or reserved against.

11.14 Execution of Agreement

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

11.14.1 conflict with or result in a breach of any of the terms of, or constitute a default under, any instrument, agreement or order to which the Borrower or any of its Subsidiaries is a party or by which it or its properties is bound;

11.14.2 conflict with the provisions of the constitutional documents of the Borrower or any resolution of its shareholders; or

11.14.3 result in Bankruptcy Proceedings or give rise to any Bankruptcy Event or Potential Bankruptcy Event or moratorium in respect of any of the obligations of the Borrower or any of its Subsidiaries or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Subsidiaries.

11.15 Compliance with Laws

Neither the entry into nor the performance by the Borrower of its obligations under this Agreement will violate any laws or regulations of Slovenia or any directives of governmental authorities therein having the force of law, and (a) the Borrower is in compliance in all material respects with all applicable provisions of the law and regulations of Slovenia and (b) no Subsidiary is in violation of any applicable provision of the laws and regulations of Slovenia, except for such violations which would not have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement.

11.16 Repetition

Each of the representations and warranties contained in Clause 11 shall be deemed to be repeated by the Borrower on the Drawdown Date.

12 Representations and Warranties of the Lender

The Lender makes the representations and warranties set out in this Clause 12 and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status and Capacity

The Lender is duly incorporated and licensed as a bank under the laws of the Netherlands and is, for tax purposes, a resident of the Netherlands. The Lender has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein.

12.2 Rights of the Lender

The Lender is not acting as agent or fiduciary or in similar capacity for any Person and is the sole Person entitled to the payments by the Borrower under this Agreement (regardless of whether the Lender applies such payment towards satisfaction of any payment obligations of the Lender) and any other benefit from the fulfilment by the Borrower of its obligations under this Agreement until the Lender assigns or transfers any of its rights under this Agreement pursuant to Clause 19.3.

12.3 Execution of Agreement

The execution of this Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of the Netherlands save where such conflict, breach or default is not material in the context of the Subordinated Loan.

12.4 Valid and Binding Obligations

This Agreement constitutes legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

12.5 Consents and Approvals

All authorisations, consents, approvals and actions required by the Lender for or in connection with the execution of this Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein have been obtained and are in full force and effect.

13 Covenants

The covenants in this Clause 13 remain in force from the date of this Agreement for so long as the Subordinated Loan or any part of it is or may be outstanding.

13.1 Notification of Bankruptcy Event or Potential Bankruptcy Event

The Borrower shall promptly inform the Lender of the occurrence of any Bankruptcy Event or Potential Bankruptcy Event and, upon a written request to that effect from the Lender, confirm to the Lender that, save as previously notified to the Lender or as notified in such confirmation, no Bankruptcy Event or Potential Bankruptcy Event has occurred.

13.2 Financial Information

So long as the Subordinated Loan (or any part thereof) remains outstanding hereunder, the Borrower shall deliver to the Lender not later than six (6) months after the end of each of its financial years, copies of the Borrower's unconsolidated financial statements for such financial year, as audited by the Auditors and prepared in accordance with IFRS.

14 Events of Default and Enforcement

14.1 Events of Default

If the Borrower shall not make payment of any principal or any interest or any payments to be made under Clause 8 in respect of the Subordinated Loan for a period of 10 days or more after the due date for the same (which failure to make payment shall constitute *prima facie* evidence of the Borrower's inability to make such payment, but such failure shall not exist if the Borrower has deferred payment of interest under Clause 6.7), the Lender may take such steps as may be appropriate under applicable law to have proceedings in Slovenia instituted (but not elsewhere) for the winding-up of the Borrower and prove in such winding-up.

14.2 Proceedings

The Lender shall be entitled to institute such proceedings against the Borrower as it may think fit to enforce any obligation, condition or provision binding on the Borrower under this Agreement (other than any obligation for payment of any principal or interest in respect of the Subordinated Loan) provided that the Borrower shall not by virtue of any such proceedings be obliged to pay, and the Lender shall not be entitled to claim for or receive or retain, any sum or sums representing principal or interest in respect of the Subordinated Loan sooner than the same would otherwise have been payable by it.

14.3 Remedies

In the event of a Bankruptcy Event, the Lender may: (i) give notice to the Borrower that the Subordinated Loan is due and repayable immediately in accordance with the rules of bankruptcy or liquidation proceedings (and the Subordinated Loan shall thereby become, subject always to Clause 2.3, so due and repayable) at its principal amount together with accrued interest (up to but excluding the date of payment) and any Deferred Interest; and (ii) prove in the winding-up of the Borrower.

15 Accrual of Interest and Indemnity

15.1 Accrual of Interest

If any sum due and payable by the Borrower hereunder (other than any amount of interest) is not paid on the due date therefor in accordance with the provisions of Clause 17, interest will continue to accrue on such sum at a rate per annum equal to the Interest Rate up to but excluding the date on which it is paid by the Borrower.

15.2 Borrower's Indemnity

The Borrower undertakes to the Lender, that if the Lender, any of its Affiliates, or any director, officer, employee or agent of the Lender or any such Affiliate or any person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation, (i) any amount payable by the Lender under the Notes, where such amount is not subject to receipt by the Lender of the relevant amount from the Borrower excluding any amount already due under Clause 8.2 and (ii) Taxes, legal fees and expenses and any applicable stamp duties, stamp duty reserve tax or other duties payable, demand or damage together with in each case any VAT thereon) (a "**Loss**") as a result of or in connection with any Bankruptcy Event, Bankruptcy Proceedings, the Subordinated Loan, this Agreement (or enforcement thereof), or the constitution, listing or enforcement of the Notes or the Notes being outstanding or any combination of any of the foregoing, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred, unless such loss was caused by such indemnified party's fraud, negligence, default or wilful misconduct. The Lender shall not have any duty or obligation, whether as fiduciary or trustee, for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 15.2.

15.3 Independent Obligation

Clause 15.2 constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

15.4 Evidence of Loss

Subject as provided in Clause 8.5 a certificate of the Lender setting forth the amount of the Loss, costs, charges and expenses described in Clause 15.2 and specifying in full detail the basis therefor and calculations thereof shall be conclusive evidence of the amount of such Loss, cost, charges and expenses.

15.5 Survival

The obligations of the Borrower pursuant to Clauses 8.1, 8.2, 15.2 and 16.2 shall survive the execution and delivery of this Agreement, the drawdown of the Subordinated Loan and the repayment of the Subordinated Loan, in each case by the Borrower.

16 Currency of Account and Payment

16.1 Currency of Account

The euro is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

16.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

17 Payments

17.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in euros to be paid by the Borrower, the Borrower shall make the same available to the Agent (to be forwarded to the Lender in accordance with the Lender's instructions) by payment in euros and in Same-Day Funds (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in euros) not later than 10.00 a.m. (London time) one Business Day prior to such date to the Account other than amounts payable (i) payable under the Fees and Expenses Side Letter and (ii) payable in relation to Clause 15.2 which the Borrower shall pay to such account or accounts as the Lender shall notify to the Borrower. Without prejudice to its obligations under Clause 6.1 (Payment of Interest), the Borrower shall procure that, before 9.00 a.m. (London time) on the Banking Day before the due date of each payment made by it under this Clause 17.1, the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. For these purposes, "**Banking Day**" means a day on which banks are open for general business in London and Amsterdam.

17.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments under this Agreement in the manner specified in Clause 17.1, then the Borrower may seek agreement with the Lender on alternative arrangements for the payment to the Lender of amounts due (prior to the delivery of any notice referred to in Clause 17.1) under this Agreement provided that, in the absence of any such agreement with the Lender, the Borrower shall be obliged to make all payments due to the Lender in the manner specified above.

17.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

17.4 Other Payment Arrangements

Any payment arrangements agreed by the Borrower and the Lender otherwise than as provided by Clause 17.1 shall be in compliance with applicable regulations of Central Bank and the Dutch Central Bank (De Nederlandsche Bank).

18 Costs and Expenses

18.1 Transaction Expenses and Fees

The Borrower agrees that it shall pay the fees and expenses of the Lender as specified in the Fees and Expenses Side Letter.

18.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on demand of the Lender reimburse the Lender for all costs and expenses (including legal fees and expenses) together with any VAT thereon properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

18.3 Stamp Taxes

The Borrower shall pay all stamp and other similar duties or taxes (including any interest or penalties thereon or in connection therewith) to which this Agreement or any judgment given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any liabilities, losses, costs, expenses (including, without limitation, legal fees and any applicable value added tax) and claims, actions or demand resulting from any failure to pay or any delay in paying any such duty or tax.

18.4 Costs relating to Amendments and Waivers

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 15.2 and Clause 18.2) compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for all time expended by the Lender, its respective directors, officers and employees, and for all costs and expenses (including telephone, fax, copying, travel and personnel costs) they may incur, in connection with the Lender taking such action as it may consider appropriate in connection with:

18.4.1 any actual, potential or suspected breach by the Borrower of any of its obligations under this Agreement;

18.4.2 the occurrence of any event which is a Bankruptcy Event or a Potential Bankruptcy Event; or

18.4.3 any amendment or proposed amendment to this Agreement or any Funding Document requested by the Borrower.

19 Assignments and Transfers

19.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

19.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

19.3 Assignments by the Lender

19.3.1 Subject as provided below, the Lender may not assign and/or transfer all or any of its rights and/or obligations hereunder prior to the commencement date of the Step-Up Interest Term without the prior written consent of the Borrower unless the assignment or transfer is to an Affiliate or a branch of the Lender and provided that such assignment or transfer would not result in an obligation on the Borrower to pay additional amounts under Clause 8.1, 8.2 or 10.1.

19.3.2 If a Default has occurred or at any time during the Step-Up Interest Term, the Lender may assign and/or transfer all or any of its rights and/or obligations hereunder to any third party without the consent of the Borrower.

19.3.3 If at any time after the date of this Agreement it becomes unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any Agency or any state or otherwise for the Lender to allow all or part of the Subordinated Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Subordinated Loan (an "**Illegality**"), then upon notice by the Lender to the Borrower in writing, the Borrower and the Lender shall, to the extent reasonably practicable in the circumstances and at the expense of the Borrower, consult in good faith as to a basis which eliminates the application of such Illegality; provided however, that the Lender shall be under no obligation to continue such consultation if, in the reasonable opinion of the Lender, it is not possible to eliminate the application of such Illegality. If such a basis has not been agreed, then the Lender shall be entitled to assign and/or transfer all or any of its rights and/or obligations hereunder to any third party without the consent of the Borrower.

19.3.4 The Lender shall notify the Agent, copied to the Borrower, of any assignment or transfer of all or any of its rights and/or obligations hereunder substantially in the form of notice set out in Schedule 3 to this Agreement and no other person shall acquire any rights hereunder unless and until such notification has been made.

19.3.5 Upon assignment by the Lender of all or any of its rights and/or obligations hereunder pursuant to Clause 19.3.4, the Agent shall record any such assignment in the Register of Lenders set out in Schedule 4 to this Agreement.

20 Changes in Agents

20.1 Appointment and Termination

The Lender may at any time terminate the appointment of the Agent and, in consultation with the Borrower, appoint a new Agent by giving to the existing Agent at least 60 days' notice to that effect.

20.2 Resignation

The Agent may resign its appointment at any time by giving the other parties to this Agreement at least 60 days' notice to that effect.

20.3 Condition to Resignation and Termination

No resignation or (subject to Clause 20.5) termination of the appointment of the Agent shall, however, take effect until a new Agent (which shall be a reputable and experienced financial institution) has been appointed by the Lender at a fair and reasonable cost. If (i) the Agent which has given notice of its resignation in accordance with Clause 20.2 or has received notice of the termination of its appointment and (ii) no replacement Agent has been duly appointed by the tenth day before the expiration of such notice, such Agent may itself appoint, in consultation with the Borrower, as its replacement any reputable and experienced financial institution.

20.4 Change of Office

If the Agent changes the address of its specified office, it shall give the Lender and the Borrower at least 60 days' notice of the change, giving the new address and the date on which the change is to take effect.

20.5 Automatic Termination

The appointment of the Agent shall forthwith terminate if the Agent becomes incapable of acting, is adjudged bankrupt or insolvent, files a voluntary petition in bankruptcy, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver, administrator or other similar official of all or a substantial part of its property or admits in writing its inability to pay or meet its debts as they mature or suspends payment thereof, or if a resolution is passed or an order made for the winding-up or dissolution of the Agent, a receiver, administrator or other similar official of the Agent or all or a substantial part of its property is appointed, a court order is entered approving a petition filed by or against it under applicable bankruptcy or insolvency law, or a public officer takes charge or control of the Agent or its property or affairs for the purpose of rehabilitation, conservation or liquidation. In such circumstances, a new Agent (which shall be a bank or trust company) shall be appointed by the Lender at a fair and reasonable cost as to be determined by the Agent.

20.6 Delivery of records

If the Agent resigns or its appointment is terminated, it shall on the date on which the resignation or termination takes effect pay to the new Agent any amount held by it for payment in respect of the Subordinated Loan and deliver to the new Agent the records kept by it.

20.7 Successor Corporations

A corporation into which the Agent is merged or converted or with which it is consolidated or which results from a merger, conversion or consolidation to which it is a party, any corporation to which the Agent shall sell or otherwise transfer all or substantially all of its assets or any corporation to which the Agent shall sell or otherwise transfer all or substantially all of its corporate trust business shall, to the extent permitted by applicable law, be the successor Agent under this Agreement without further formality. The Agent concerned shall forthwith notify such an event to the other parties to this Agreement.

21 Calculations and Evidence of Debt

21.1 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

21.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.2 or Clause 10.1 or Clause 15.2 shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower in relation to the Lender.

22 Amendments, Remedies and Waivers, Partial Invalidity

22.1 Amendments

For the avoidance of doubt, the Borrower will not agree to any amendment to the provisions of this Agreement set out in Clauses 22.1.1 to 22.1.6 below without prior approval from the Central Bank:

22.1.1 the subordinated status of the Lender's claims hereunder as set out in Clause 2.3;

22.1.2 Clause 2.4;

22.1.3 Clause 6.7;

22.1.4 Clause 7;

22.1.5 Clause 14; and

22.1.6 Clause 22.1.

22.2 Remedies and Waivers

No failure by the Lender to exercise, nor any delay by the Lender in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

22.3 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

23 Notices; Language

23.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

23.2 Giving of Notice

Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 5 days' written notice specified another address) be made or delivered to that other person, addressed as follows:

23.2.1 If to the Borrower:

Ulica Vita Kraigherja 4
2505 Maribor
Slovenia

Attention:	Mr Marko Podlipnik
Tel:	+386 2 229 2284
Fax:	+386 2 252 7870

23.2.2 If to the Lender:

60 London Wall
London EC2M 5TQ

Attention: Structured Products
Tel: +44 20 7767 8452
Fax: +44 20 7767 7250

23.2.3 If to the Agent:

60 London Wall
London EC2M 5TQ

Attention: Structured Products
Tel: +44 20 7767 8452
Fax: +44 20 7767 7250

and shall be deemed to have been delivered at the time when confirmation of its transmission has been recorded by the sender's fax machine at the end of the communication (in the case of any communication by fax) or (in the case of any communication made by post) upon receipt by the addressee (in each case, if given during normal business hours of the recipient, and, if not given during such hours, on the immediately succeeding business day in the city of the addressee during which such normal business hours next occur).

23.3 English Language

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Slovenian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or Slovenian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

23.4 Language of Agreement

This Agreement has been executed in the English language.

24 Law And Jurisdiction

24.1 English Law

This Agreement is governed by, and shall be construed in accordance with, English law provided that any provisions hereof related to the subordination of the Subordinated Loan shall be governed by, and construed in accordance with, Slovenian law.

24.2 English Courts

Subject to Clause 23.6 and 14.1, the Borrower agrees for the benefit of the Lender that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement ("**Proceedings**") and, for such purposes, irrevocably submits to the exclusive jurisdiction of such courts.

24.3 Waiver of any Applicable Immunity

To the extent that it is legally able to do so, the Borrower hereby waives irrevocably any immunity to which it might otherwise be entitled in proceedings brought before the English courts and hereby consents generally in respect of any Bankruptcy Proceedings to the giving of any relief or the issue of any process in the English courts in connection with such Bankruptcy Proceedings.

24.4 Appropriate Forum

The Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings (other than any proceedings referred to in Clause 14.1) and to settle any disputes which arise out of or in connection with this Agreement, and agrees not to claim that any such court is not a convenient or appropriate forum.

24.5 Service of Process (Borrower)

The Borrower agrees that the service of process relating to any Proceedings in England and Wales may be by delivery to Hackwood Secretaries Limited at its registered office for the time being, currently at One Silk Street, London EC2Y 8HQ. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in the United Kingdom to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

24.6 Non-exclusivity

The submission by the Borrower to the exclusive jurisdiction of the English courts shall not (and shall not be construed so as to) limit the right of the Lender to bring Proceedings in any other court of competent jurisdiction.

24.7 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

SUMMARY OF CERTAIN TERMS OF THE NOTES

This section is only a summary of certain provisions of the Final Terms of the Notes and is qualified in its entirety by the Final Terms of the Notes and the Conditions (as defined in the Final Terms of the Notes) which should be carefully considered.

The Notes will be issued under the Issuer's €50,000,000,000 Global Issuance Programme (the "**Programme**") in accordance with the terms and conditions set out in Chapters 2 and 5 of the Base Prospectus. The Notes will be in registered form.

The Notes are limited recourse obligations of the Issuer and the Issuer's payment obligations under the Notes are limited to the sums which the Issuer (as Lender) actually receives from the Borrower under the Subordinated Loan. Payments under the Subordinated Loan are due to be made by NKBM one Business Day prior to the due date for any payments under the Notes. The Borrower has the right under Clause 6.7 of the Subordinated Loan to defer payment of interest under the Subordinated Loan. In the event of such a deferral, no interest will be payable under the Notes until the Borrower gives to the Issuer written notice of its intention to pay the whole or any part of the deferred interest under the Subordinated Loan or upon the occurrence of certain other events (see "Subordinated Loan Agreement").

The Notes will be redeemed (i) on the occurrence of a Default under the Subordinated Loan (see "Subordinated Loan Agreement"), (ii) on the repayment of the Subordinated Loan by the Borrower by means of a mandatory Issuer call (see "Subordinated Loan Agreement" and "Final Terms of the Notes") or (iii) on the occurrence of an Event of Default under the Notes. Events of Default under the Notes include (a) default by the Issuer for more than 30 days in the payment of interest or principal in respect of the Notes, (b) failure on the part of the Issuer to perform or observe any of its other obligations under the Notes for a period of 60 days following service on the Issuer of notice requiring the same to be remedied, (c) a declaration of bankruptcy in relation to the Issuer and (d) an order being made or an effective resolution being passed for the winding up or liquidation of the Issuer. The Notes may be redeemed by the Issuer following the commencement of the Step-Up Interest Term by means of an optional Issuer call (see "Final Terms of the Notes").

If the Notes are to be redeemed following (i) above, the Issuer may at its option seek to sell the Subordinated Loan and deliver the cash proceeds from such sale on a *pro rata* basis to the Noteholders and/or physically deliver (by assignment) relevant proportions of the Subordinated Loan in favour of the Noteholders who shall thereby become Lenders under the Subordinated Loan. If the Issuer is unable to sell the Subordinated Loan the terms and conditions of the Notes provide that the Issuer shall physically deliver (by assignment) on a *pro rata* basis the Subordinated Loan in favour of the Noteholders who shall thereby become Lenders under the Subordinated Loan. If the Issuer gives notice that it elects to deliver the *pro rata* share of the proceeds of sale by the Issuer of the Subordinated Loan, a Noteholder may, within five days of delivery of such notice pursuant to item 31(viii) (Alternative Settlement) of the Final Terms, direct the Issuer instead to assign an interest in the Subordinated Loan to such Noteholder.

If the Notes are to be redeemed following (iii) above, the Issuer may at its option sell the Subordinated Loan and deliver the cash proceeds from such sale on a *pro rata* basis to the Noteholders and/or physically deliver (by assignment) relevant proportions of the Subordinated Loan in favour of the Noteholders who shall thereby become Lenders under the Subordinated Loan. In the case of (iii) above, any Noteholder accelerating the Notes may request physical delivery (by assignment) on a *pro rata* basis of the Subordinated Loan. If such request is not made, the Issuer shall sell the Subordinated Loan and deliver the cash proceeds on a *pro rata* basis to Noteholders and physically deliver any remaining proportion of the Subordinated Loan which has not been sold.

If, following commencement of the Step-Up Interest Term, the Borrower does not exercise its right to repay the Subordinated Loan under Clause 7.4 of the Subordinated Loan Agreement, the Issuer may redeem the Notes by means of an optional Issuer call. Pursuant to such optional Issuer call, each holder of the Notes will, at the Issuer's option, receive on a *pro rata* basis the proceeds of the sale by the Issuer of the Subordinated Loan and/or become a party to the Subordinated Loan by way of assignment (with the extent of its interest in the Subordinated Loan being determined by the Issuer) provided that in the event that the Issuer gives notice that it is exercising its rights of optional redemption, a Noteholder may, within five days of delivery of such notice, direct the Issuer instead to physically deliver an interest in the Subordinated Loan to such Noteholder.

The Issuer may, without any further consent of the Noteholders being required, when no payment of principal or interest on any of the Notes is in default, be replaced and substituted by any directly or indirectly wholly owned subsidiary of the Issuer as principal debtor in respect of the Notes in accordance with certain conditions.

FINAL TERMS OF THE NOTES

Final Terms dated 2 October 2006

ING Bank N.V.
Issue of €50,000,000 Floating Rate Perpetual Notes
issued pursuant to a
€50,000,000,000 Global Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in Chapter 2, Part 1 (the "**General Conditions**") and Chapter 5, Part 1 (the "**Credit-Linked Conditions**" and together with the General Conditions, the "**Conditions**") of the Base Prospectus dated 29 September 2006 (the "**Base Prospectus**"). This document constitutes the Final Terms applicable to the issue of Notes described herein and must be read in conjunction with such Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms, the Base Prospectus and the Prospectus dated 2 October 2006 relating to the Borrower and the Notes. Copies of the Base Prospectus may be obtained from ING Bank N.V. Written or oral requests for such document should be directed to ING Bank N.V. at Foppingadreef 7, 1102 BD Amsterdam, The Netherlands.

The Notes are credit-linked and the amounts payable under the Notes and the timing of such payments are dependent on the performance of the obligations under the Reference Obligation (as defined herein).

GENERAL DESCRIPTION OF THE NOTES

1	Issuer:	ING Bank N.V.
2	Series Number:	628
3	Specified Currency or Currencies:	Euro
4	Aggregate Nominal Amount of Notes:	€50,000,000
5	Issue Price:	100 per cent. of the Specified Denomination
6	Offer period and application process:	Not Applicable
7	Details of minimum and maximum amount of application:	Not Applicable
8	Specified Denomination:	€50,000 per Note (subject to the Minimum Trading Size, as set out in paragraph 31(ii) below)
9	Issue Date and Interest Commencement Date:	5 October 2006
10	Maturity Date:	Perpetual
11	Interest Basis:	Floating Rate (further particulars specified in paragraph 18 below)
12	Redemption/Payment Basis:	The Notes are perpetual and have no maturity and shall only become redeemable in the event of any Issuer Call (further particulars specified in paragraph 21 below), early redemption or upon the occurrence of a Termination Event
13	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
14	Put/Call Options:	Issuer Call
15	Status of the Notes:	Senior and as specified in paragraph 31(x) below
16	Method of distribution:	Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	**Fixed Rate Note Provisions:**	Not Applicable
18	**Floating Rate Note Provisions:**	Applicable
(i)	Specified Period(s)/Specified Interest Payment Dates:	5 January, 5 April, 5 July and 5 October in each year, commencing on 5 January 2007, in each case subject to adjustment in accordance with the Business Day Convention specified below
(ii)	Business Day Convention:	Modified Following Business Day Convention (Adjusted)
(iii)	Additional Business Centre(s):	Ljubljana
(iv)	Manner in which the Rate of Interest and Interest Amount(s) is/are to be determined:	Screen Rate Determination
(v)	Party responsible for calculating the Rate of Interest and Interest Amount(s):	Not Applicable
(vi)	Screen Rate Determination:	
	– Reference Rate:	Three Month EURIBOR
	– Interest Determination Date(s):	The second day on which the TARGET System is open prior to the start of each Interest Period
	– Relevant Screen Page:	Reuters page EURIBOR01
(vii)	ISDA Determination:	Not Applicable
(viii)	Margin(s):	(a) From and including the Interest Commencement Date, to but excluding the commencement of the Step-Up Interest Term: + 1.6 per cent. per annum (b) In respect of each Interest Period which ends after the commencement of the Step-Up Interest Term: + 3.1 per cent. per annum "**Step-Up Interest Term**" means the period from (and including) 5 October 2016
(ix)	Minimum Rate of Interest:	Not Applicable
(x)	Maximum Rate of Interest:	An amount per Note equal to the product of (i) the actual amount received by the Issuer under the Reference Obligation in respect of interest for the corresponding interest period under the Reference Obligation and (ii) the Note Fraction, rounded down to the nearest cent, where: "**Note Fraction**" means, in respect of each Note, the outstanding principal amount of such Note divided by the aggregate outstanding principal amount of the Notes, *provided that* the obligation of the Issuer to pay the Interest Amount is conditional upon the receipt of amounts equivalent to such Interest Amount by the Issuer under the Reference Obligation.

		The Borrower has the right under Clause 6.7 of the Reference Obligation to defer payment of interest under the Reference Obligation. In the event of such a deferral, no interest will be payable under the Notes until the Borrower gives to the Issuer written notice of its intention to pay the whole or any part of the deferred interest under the Reference Obligation or upon the occurrence of certain other events (see Clause 6.7 of the Reference Obligation).
(xi)	Day Count Fraction:	Actual/360 (as set out in Clause 6.2 of the Reference Obligation)
(xii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the General Conditions:	As set out in Clause 6 of the Reference Obligation

19 **Zero Coupon Note Provisions:** Not Applicable

20 **Dual Currency Interest Note Provisions:** Not Applicable

PROVISIONS RELATING TO REDEMPTION

21 **Issuer Call:** Applicable

The Issuer Call is either a mandatory Issuer Call following early repayment of the Reference Obligation or an optional Issuer Call following the commencement of the Step-Up Interest Term. For the purposes of this paragraph 21 in relation to a mandatory Issuer Call only, references in General Condition 6(c) to "Optional Redemption Date(s)" and "Optional Redemption Amount" shall be deemed to be references to "Mandatory Redemption Date" and "Mandatory Redemption Amount" respectively, and the first line thereof shall be amended by replacing the words "the Issuer may" with "the Issuer shall".

Payment of the Mandatory Redemption Amount is subject to Credit-Linked Condition 4(a); for the purposes of this paragraph 21, references to Maturity Date and Maturity Payment Date in Credit-Linked Condition 4(a) shall be deemed to be references to the date that is one Business Day prior to the Mandatory Redemption Date, and the Mandatory Redemption Date, respectively.

Payment of the Optional Redemption Amount is subject to Credit-Linked Condition 4(a); for the purposes of this paragraph 21, references to Maturity Date and Maturity Payment Date in Credit-Linked Condition 4(a) shall be deemed to be references to the date that is one Business Day prior to the Optional Redemption Date, and the Optional Redemption Date, respectively.

(i)	Mandatory Issuer Call:		*Mandatory redemption following a repayment of the Reference Obligation in accordance with Clauses 7.2, 7.3, 7.4 and 7.5 of the Reference Obligation.*
	(a)	Mandatory Redemption Date:	One Business Day following the date on which the Issuer receives cleared payment of the amounts repaid under the Reference Obligation.
	(b)	Mandatory Redemption Amount:	The outstanding nominal amount of each Note plus accrued interest to the Business Day prior to the Mandatory Redemption Date less any taxes, fees or costs incurred by the Issuer in connection with the early redemption subject, in any event, to receipt by the Issuer of amounts which have been repaid under the Reference Obligation.

	(c)	Notice Period (if other than as set out in the General Conditions):	Not less than 5 nor more than 30 calendar days' notice.
(ii)	Optional Issuer Call:		*Optional redemption from commencement of the Step-Up Interest Term*
	(a)	Optional Redemption Date:	As set out in the notice to Noteholders under General Condition 6(c)
	(b)	Optional Redemption Amount:	At the Issuer's option, (a) an amount per Note equal to the product of (i) such amounts as have been received by the Issuer in consideration for the transfer by it of its rights and/or obligations under the Reference Obligation and (ii) the Note Fraction, rounded down to the nearest cent and/or (b) a proportion (as determined by the Issuer) of the Deliverable Obligations to be Delivered to a holder of the Notes in accordance with the terms of Credit-Linked Condition 3 which shall be deemed to apply for the purposes of this sub-paragraph (b) *mutatis mutandis* as if a Termination Event had occurred, for which purposes the "Physical Settlement Date" and "Cut-off Date" shall be such dates as may be specified by the Issuer by notice to such holder. If, however, following the delivery of an optional redemption notice under General Condition 6(c), the Issuer receives a notice in writing within five Business Days following the Event Determination Date from a Noteholder requesting Physical Settlement, the Issuer shall act in accordance with such request (and for such purpose Credit-Linked Condition 3 shall be deemed to apply as if a Termination Event had occurred, for which purposes the "Physical Settlement Date" and "Cut-off Date" shall be such dates as may be specified by the Issuer by notice to such holder), unless it is prevented from doing so by any applicable laws or regulations then in effect and subject to the Noteholder paying to the Issuer, in advance, any costs, fees or expenses that the Issuer may incur in connection with such delivery.
	(c)	Notice Period (if other than as set out in the General Conditions):	Not Applicable

22	Noteholder Put:	Not Applicable
23	Final Redemption Amount of each Note:	Not Applicable
24	Early Redemption Amount of each Note (payable on redemption for taxation reasons or on an Issuer event of default and/or the method of calculating the same (if required or if different from that set out in General Condition 6(f)):	**Early Redemption under General Condition 9** For the purposes of General Condition 9, "Early Redemption Amount" shall mean (a) an amount per Note equal to the product of (i) such amounts of principal, interest or any additional amounts as have been received by the Issuer under the Reference Obligation (if any), together with any amounts received by the Issuer in consideration for the transfer by it of its rights and/or obligations under the Reference Obligation and (ii) the Note Fraction rounded down to the nearest cent and (b) the remaining proportion (attributable to a Noteholder exercising its right under General Condition 9) of the Deliverable Obligations which shall be Delivered to the

holder of a Note in accordance with the terms of Credit-Linked Condition 3 which shall be deemed to apply for the purpose of this paragraph *mutatis mutandis* as if a Termination Event had occurred. If the Noteholder exercising its right under General Condition 9 requests Physical Settlement in its notice to the Issuer given in accordance with General Condition 9, then the Issuer shall act in accordance with such request (and for such purpose Credit-Linked Condition 3 shall be deemed to apply as if a Termination Event had occurred), unless it is prevented from doing so by any applicable laws or regulations then in effect and subject to such Noteholder paying to the Issuer, in advance any costs, fees or expenses that the Issuer may incur in connection with such delivery.

Early Redemption under General Condition 6

General Condition 6(b) (*Redemption for Tax Reasons*) shall not apply to this issue of Notes.

The Borrower under the Reference Obligation has agreed to pay to the Issuer any additional amounts required as a result of a withholding or deduction on account of tax in order that the amounts received by the Issuer under the Reference Obligation will equal the amounts which would have been received in the absence of such withholding or deduction (Clause 8.1 of the Reference Obligation). In addition, if the Issuer is required to make any deduction or withholding for or on account of taxes from any payment made by the Issuer under the Notes and the Issuer is required to pay any additional amounts under the Notes, the Borrower shall pay such additional amounts to the Issuer (Clause 8.2 of the Reference Obligation). If the Borrower is required to make any such payments in respect of a withholding it shall have the option to repay the Reference Obligation in full (Clause 7.4 of the Reference Obligation). Such repayment will result in the exercise of the Issuer Call (as set out in paragraph 21)).

For the purposes of General Condition 6(m), references to "Early Redemption Amount" shall be deemed to be references to "Optional Redemption Amount" as set out in paragraph 21(ii)(b) above.

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25	Form of Notes:	Registered Notes
26	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	Ljubljana
27	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	Not Applicable
28	Details relating to Partly Paid Notes:	Not Applicable
29	Details relating to Instalment Notes:	Not Applicable

30 Redenomination: Not Applicable

31 Other final terms:

(i) **Notices**

Notwithstanding anything to the contrary contained in the General Conditions or the Credit-Linked Conditions, the Issuer may satisfy its obligations in respect of any notice (as provided by General Condition 13) to be given to Noteholders in respect of the Notes by giving the relevant notice to the Agent, including a Termination Event Notice and an Alternative Settlement Notice. The Agent shall upon receipt of any such notice from the Issuer, arrange for the relevant notice to be given to the Noteholders in accordance with General Condition 13.

(ii) **Minimum Trading Size**

So long as the Notes are represented by a Reg S Global Note, the Notes will be tradeable only in a minimum amount of €500,000 (the "**Minimum Trading Size**") and integral multiples of the Specified Denomination in excess thereof.

(iii) **Potential Failure to Pay**

For the purposes of the definition of "**Potential Failure to Pay**" in Credit-Linked Condition 12, "**Payment Requirement**" shall be deemed equal to zero.

(iv) **Credit Events**

The definition of "**Credit Event**" in Credit-Linked Condition 12 shall be deemed deleted for the purposes of the Notes and replaced with the following:

""**Credit Event**" means the occurrence of any event of default as described in Clause 14.1 of the Reference Obligation."

(v) **Maturity Payment Date**

The definition of "**Maturity Payment Date**" in Credit-Linked Condition 12 shall be deemed deleted for the purposes of the Notes and replaced with the following:

""**Maturity Payment Date**" means the date falling no later than one Business Day following the Reference Obligation Repayment Date. For the purposes hereof, "**Reference Obligation Repayment Date**" means the date on which the Issuer receives cleared payment of the principal due and payable under the Reference Obligation."

(vi) **Recovery Amount**

The definition of "**Recovery Amount**" in Credit-Linked Condition 12 shall be deemed deleted and replaced with the following for the purposes of the Notes:

""**Recovery Amount**" means an amount, determined by the Calculation Agent in its absolute discretion, in good faith and in a commercially reasonable manner, of the net proceeds actually received by the Issuer: (i) from the Obligor under the Reference Obligation, and/or (ii) upon sale or disposal of the Reference Obligation, less the sum of any taxes, fees or costs in connection therewith which may be incurred by the Issuer."

(vii) **Observation Period**

The definition of "**Observation Period**" in Credit-Linked Condition 12 shall be deemed deleted and replaced with the following for the purposes of the Notes:

""**Observation Period**" means the period from (and including) the Issue Date to (and including) the Maturity Payment Date."

(viii) **Alternative Settlement**

Credit-Linked Condition 2 shall be deemed amended for the purposes of the Notes by the inclusion of the following as new sub-paragraphs (d) and (e) thereunder:

"(d) Notwithstanding sub-paragraph (a) above, if, following delivery of the Termination Event Notice, the Issuer receives a notice in writing within five Business Days following the Event Determination Date from a Noteholder requesting Physical Settlement, the Issuer shall act in accordance with such request (and for such purpose Credit-Linked Condition 3 shall be deemed to apply), unless it is prevented from doing so by any applicable laws or regulation then in effect and subject to the Noteholder paying to the Issuer, in advance, any costs, fees or expenses that the Issuer may incur in connection with such delivery.

(e) Notwithstanding sub-paragraph (a) above, if Cash Settlement is specified as the Settlement Basis in the Termination Event Notice but the Issuer is unable to sell or dispose of the Reference Obligation within 180 days following the Event Determination Date, the Issuer shall notify Noteholders of the same in accordance with General Condition 13 and paragraph 31(i) above (an "**Alternative Settlement Notice**"), whereupon the Issuer shall endeavour to Deliver to each Noteholder the Relevant Proportion of the Deliverable Obligations in accordance with Credit-Linked Condition 3, for which purposes the "Physical Settlement Date" and "Cut-off Date" shall be such dates as may be specified by the Issuer in the Alternative Settlement Notice."

(ix) **Further Issues**

In the event that the Reference Obligation is amended in order to advance additional funds to the Borrower on the same terms (in respect of any period thereafter) as the original advance under the Reference Obligation (an "**Additional Advance**"), the Issuer shall be permitted to issue further notes, pursuant to General Condition 15, having the same terms and conditions as the Notes (in respect of any period thereafter), in a nominal amount equal to the Additional Advance and so that the same shall be consolidated and form a single series with the outstanding Notes. Following the making of an Additional Advance, references to the Reference Obligation shall be to that as amended.

(x) **Limited Recourse**

General Condition 2 is hereby amended for the purposes of the Notes by the addition of the following as the second paragraph:

"The Senior Notes are limited recourse obligations of the Issuer. The obligations of the Issuer in respect of the Senior Notes will be limited to net proceeds which the Issuer has actually received as lender or beneficiary, as the case may be, of the Reference Obligation on the relevant due date(s) in accordance with the terms of the Reference Obligation(s) and/or upon sale or disposal of the Reference Obligation. If such net proceeds are less than the aggregate amount payable by the Issuer in respect of the Senior Notes, the obligations of the Issuer will be limited to such net proceeds. Accordingly, no debt shall be owed to any of the Noteholders of the Senior Notes which if unpaid could give rise to the Noteholders of Senior Notes taking any further action against the Issuer or any other member of the ING group."

(xi) **Tax gross-up**

General Condition 7 shall be deemed replaced for the purposes of the Notes with the following:

"**7 Taxation**

All payments by, or on behalf of, the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("**Taxes**") imposed or levied by or on behalf of the Netherlands or any governmental or political subdivision or territory or possession of any government or any authority thereof or agency therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. No such additional amounts shall be payable in respect of any Note:

(a) held by a holder which is liable for such Taxes in respect of such Note by reason of its having some connection with the Netherlands other than the mere holding of such Note (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Netherlands); or

(b) to a holder in respect of Taxes that are imposed or withheld by reason of the failure of the holder to comply with a request of, or on behalf of, the Issuer addressed to the holder to provide information concerning the nationality, residence or identity of such holder or to make any declaration or similar claim or satisfy any information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or administrative practice as a precondition to exemption from all or part of such Taxes; or

(c) where the relevant Note is presented for payment of principal or interest on redemption more than 30 days after a Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on the last day of such period of 30 days; or

(d) where such withholding or deduction is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) in respect of a Note presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

Notwithstanding the foregoing provisions, the Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 7 to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower under the Reference Obligation.

To the extent that the Issuer does not receive from the Borrower such equivalent amount in full, the Issuer shall account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Reference Obligation on the date of, in the currency of, and subject to any conditions attaching to the payment of, such additional amount by the Issuer.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount of the money payable has not been received by the Agent on or prior to such due date, the date on which (the full amount of the money having been so received) notice to that effect has been duly given to the Noteholders by the Issuer in accordance with General Condition 13.

Any reference in these Conditions to principal or interest or other amounts shall be deemed to include any additional amounts in respect of principal or interest or other amounts (as the case may be) which may be payable under this General Condition 7 or any undertaking given in addition to or in substitution of this General Condition 7 pursuant to the Reference Obligation.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Netherlands, references in these Conditions to the Netherlands shall be construed as references to the Netherlands and/or such other jurisdiction."

(xii) **Definitions**

The definition of "**Partial Cash Settlement Amount**" in Credit-Linked Condition 3(f)(iii) shall be deemed replaced for the purposes of the Notes with the following:

""**Partial Cash Settlement Amount**" means, for each Undeliverable Obligation, an amount in euro (rounded down to the nearest one cent) equal to such Undeliverable Obligation's *pro rata* share of the Recovery Amount."

The definition of "**Publicly Available Information**" in Credit-Linked Condition 12 shall be deemed satisfied in respect of the Reference Obligation by a Certificate signed by a Director of the Issuer confirming that a Credit Event has occurred.

DISTRIBUTION

32	(i) If syndicated, names and addresses of Managers and underwriting commitments:	Not Applicable
	(ii) Date of Syndication Agreement:	Not Applicable
	(iii) Stabilising Manager (if any):	Not Applicable
33	If non-syndicated, name and address of relevant Dealer:	Not Applicable
34	Total commission and concession:	Not Applicable
35	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	N/A
36	Additional selling restrictions:	**Italy**

No public offerings or sales of the Notes or any distribution of copies of the Base Prospectus or of any other offering material relating to the Notes will or may be made to the public in the Republic of Italy, except where the Issuer has been duly licensed to carry out banking activity in Italy pursuant to Article 11 of Legislative Decree No. 385 of 1 September 1993, as amended (the "**Italian Banking Act**") and provided that:

(i) the requirements of Italian law concerning the publication of prospectuses as set out under Legislative Decree No. 58 of 24 February 1998, as amended (the "**Italian Financial Act**") for public offerings of securities in Italy have been fulfilled, or

(ii) the offer of the Notes is carried out in circumstances which are exempted from the rules of solicitation of investment pursuant to Article 100 of the Italian Financial Act and Article 33, first paragraph, of CONSOB Regulation no. 11971 of 14 May 1999, as amended, and

(iii) in any case, no offer or sale of the Notes can be made *vis-à-vis* individuals located in the Republic of Italy, both in the primary and in the secondary market. Moreover and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy, in accordance with the above, must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Act, the Italian Banking Act, CONSOB Regulation No. 11522 of 1 July 1998, and any other applicable laws and regulations;

(b) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics;

(c) in compliance with the banking transparency requirements set forth in the Italian Banking Act and the implementing regulations and decrees (if applicable); and

(d) in accordance with all relevant Italian securities, tax and exchange controls and any other applicable laws and regulations and with any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy from time to time.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of Directive 2003/71/EC (the "**Prospectus Directive**"), such requirements shall be replaced by the applicable requirements under the Prospectus Directive or the relevant implementing laws.

Slovenia

The Notes may only be offered publicly in Slovenia if:

(a) a prospectus in relation to the Notes has been published in Slovenia during the period of the last 12 months which has been previously approved by either (i) the Slovenian Securities Market Agency (*Agencija za trg vrednostnih papirjev*) (the "**ATVP**") or (ii) the competent authority of another member state of the European Union (each a "**Member State**") and notified to the ATVP in accordance with the Prospectus Directive; or

(b) an exemption from the obligation to publish a prospectus, as provided in the Slovenian Securities

Market Act (the "**ZTVP-1**", *Zakon o trgu vrednostnih pap*irjev), applies to such offer such as, among others:

(i) if the offer is addressed solely to qualified investors (*dobro poučeni investitorji*), as defined in the ZTVP-1; and/or

(ii) if the offer is addressed to fewer than 100 natural or legal persons, not being qualified investors, having a permanent residence or corporate seat in Slovenia or any other Member State; and/or

(iii) if the offer is addressed to investors who acquire the Notes for a total consideration of at least SIT 12,000,000 per investor, for each separate offer; and/or

(iv) if the total consideration for the Notes is less than SIT 24,000,000, which limit shall be calculated over a period of 12 months.

For the purposes of the ZTVP-1, the term "**public offering**" means a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to purchase or subscribe to these securities. This definition shall also be applicable to the initial placing of securities through financial intermediaries but shall not apply to the offers placed through trading systems on the organised markets.

According to the ZTVP-1, the term qualified investor (*dobro poučeni investitor*) includes, among others:

(i) banks (*banke*), stockbrokers (*borzno posredniške družbe*), insurance companies (*zavarovalnice*), investment funds (*investicijski skladi*) and the managers thereof, pension funds (*pokojninski skladi*) and the managers thereof, other regulated financial organisations (as defined in Art. 10a. of the ZTVP-1) as well as other entities whose corporate purpose is solely to invest in securities;

(ii) national, regional or local governments;

(iii) central banks;

(iv) international organisations such as the International Monetary Fund, the European Investment Bank, the European Central Bank and similar;

(v) large companies (i.e. companies having two or more of (1) an average of at least 250 employees; (2) a net annual total turnover of more than SIT 12,000,000,000 during the last financial year; and (3) a total balance sheet at the end of the last financial year exceeding SIT 10,320,000,000);

		(vi) other legal entities and individuals meeting certain criteria that expressly request to be considered as qualified investors and are registered as such with the ATVP.
37	Simultaneous offer:	Not Applicable
38	Process for notification to applicants of amount allotted and indication whether dealing may begin before notification is made:	Not Applicable

CREDIT LINKED PROVISIONS

39	Type of Notes:	Single Name Credit Linked Notes linked to the Reference Obligation
	Settlement Basis:	Cash or Physical Settlement
	Alternative Interest Cessation Date:	Applicable
	Reference Entity:	Nova Kreditna banka Maribor d.d. (the "**Borrower**")
	Reference Obligation:	The subordinated loan agreement dated 2 October 2006 (the "**Reference Loan**") between the Borrower and ING Bank N.V. as Lender as amended from time to time in accordance with its terms. The Reference Loan is set out in the section entitled "Subordinated Loan Agreement".
	Reference Obligation Nominal Amount:	Not Applicable
	Adjustment Events:	Not Applicable
	Relevant Currency:	Not Applicable
	Relevant Jurisdiction:	Not Applicable
	All Guarantees:	Not Applicable
	Termination Events:	Credit Event, Regulatory Change Event
	Conditions to Settlement:	Termination Event Notice, Notice of Publicly Available Information
	Interest Payment Date and Maturity Payment Date Postponement:	Applicable in respect of Interest Payment Dates only
	Repudiation/Moratorium Maturity Payment Date Postponement:	Not Applicable
	Notice of Publicly Available Information applicable to:	
	(a) Repudiation/Moratorium Extension Condition:	Not Applicable
	(b) Grace Period Extension Condition:	No
	Grace Period:	As specified in the Reference Obligation
	Grace Period Extension:	Not Applicable

Cash Settlement Amount:	In respect of each Note the product of (i) the Recovery Amount and (ii) the Note Fraction.
Cash Settlement Date:	Shall mean the 2nd Business Day following the receipt by the Issuer of (i) amounts paid by the Borrower under the Reference Obligation; and/or (ii) the proceeds arising from the sale or disposal of the Reference Obligation, representing the Recovery Amount.
Valuation Method:	Not Applicable
Final Price:	Not Applicable
Quotations:	Not Applicable
Quotation Amount:	Not Applicable
Valuation Time:	Not Applicable
Hedge Unwind Adjustment:	No
Physical Settlement Date:	30 Business Days
Obligation Category:	Reference Obligation Only
Obligation Characteristics:	Not Applicable
Deliverable Obligation Category:	Reference Obligation only
Deliverable Obligation Characteristics:	Not Applicable
Business Day(s):	Ljubljana, London, Amsterdam and TARGET

RESPONSIBILITY

Subject as set out in the Base Prospectus, the Issuer accepts responsibility for the information contained in these Final Terms.

By: . . . . *Duly authorised*	By: . . . . *Duly authorised*

PART B – OTHER INFORMATION

1 LISTING

(i)	Listing:	Luxembourg
(ii)	Admission to trading:	Application has been made for the Notes to be admitted to trading on Luxembourg with effect from 9 October 2006.
(iii)	Estimate of total expenses related to admission to trading:	€6,300

2 RATINGS

The Notes have been rated:	
Moody's:	A3
Fitch:	BBB+

3 OPERATIONAL INFORMATION

(i)	ISIN Code:	XS0270427163
(ii)	Common Code:	027042716
(iii)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*/Euroclear Netherlands and the relevant identification number(s):	Not Applicable
(iv)	Delivery:	Delivery against payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	Not Applicable
(vi)	Name and address of Calculation Agent (if other than the Issuer):	ING Bank N.V. acting through its London Branch, 60 London Wall, London EC2M 5TQ

ING BANK N.V.

The description of the Issuer is found on pages 72 to 87 of the Base Prospectus and is incorporated by reference into this Prospectus (see "Incorporation by Reference").

TAXATION

The following is a general description of certain Slovenian and European Union tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Slovenia

Corporate Investors

(a) Tax on Interest Income

Pursuant to the Slovenian Corporate Income Tax Act (*Zakon o davku od dohodka pravnih oseb*), the income derived by a legal entity that is a Slovenian resident or by permanent establishment of a non-Slovenian resident in Slovenia from interest on the Notes will constitute a part of the overall annual income of such Slovenian resident or, as the case may be, permanent establishment, and will be subject to the corporate income tax (*Davek od dohodka pravnih oseb*) imposed on the overall net income at the rate of 25 per cent.

(b) Capital Gains

Capital gains realised by a legal entity that is a Slovenian resident or by permanent establishment of a non-Slovenian resident in Slovenia will constitute a part of the overall annual income of such Slovenian resident or, as the case may be, permanent establishment, and will be subject to the corporate income tax (*Davek od dohodka pravnih oseb*) imposed on the overall net income at the rate of 25 per cent.

Individuals

(a) Tax on Interest Income

Pursuant to the Slovenian Personal Income Tax Act (*Zakon o dohodnini*), interest on the Notes paid to natural persons who are Slovenian residents for the purposes of that Act is taxable for the financial years 2006 and 2007 at a flat rate of 15 per cent and thereafter at a flat rate of 20%. This tax is the definitive tax imposed by Slovenia on such interest income and may be levied in the two different ways described below.

If a payment of interest is effected through a person (other than through a natural person who is not conducting business activity), entity or association of persons (whether or not having a separate legal personality) which is a Slovenian resident for tax purposes or has a permanent establishment in Slovenia, Slovenian tax on interest in respect thereto shall be levied by way of withholding tax calculated at the rate specified above (but may be reduced by the amount of any non-Slovenian withholding taxes).

If, however, the interest is paid without the intervention of any such person, the recipient must declare each such payment within 15 days with the competent office of Slovenian tax administration (*Davčna uprava Republike Slovenije*) and pay the tax thereon after it is assessed. The amount of tax payable in Slovenia on such interest may be reduced by the amount of any non-Slovenian tax subject to the presentation of sufficient proof that such non-Slovenian tax has been paid or assessed.

(b) Tax on capital gains

Capital gains resulting from disposal of the Notes realised by natural persons are not subject to Slovenian taxation except where the gains are realised within the scope of conducting such person's business activity (in which case they will constitute a part of their overall income and will be subject to the tax rate applicable to the relevant amount of overall annual income).

(c) Inheritance and Gift Tax

Acquisition of any assets in Slovenia by a natural person as inheritance or a gift may be subject to taxation in Slovenia. The tax rate ranges from 5 per cent. to 30 per cent. depending on the value of the assets and on the personal relationship between the transferor and transferree.

Other Taxes

No Slovenian stamp duty or transfer taxes are payable in connection with the issue, delivery, transfer or redemption of any Note.

Netherlands

The description of taxation in the Netherlands that may apply to the Notes is found on pages 78 to 83 of the Base Prospectus and is incorporated by reference into this Prospectus (see "Incorporation by Reference").

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required from 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also with effect from 1 July 2005, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

Prospective purchasers of these Notes should consult their advisors concerning the impact of the EU Savings Directive. Notwithstanding the above, for the avoidance of doubt, should the Issuer, the Swiss Paying Agent or any institution where the Notes are deposited be required to withhold any amount as a direct or indirect consequence of the EU Savings Directive, then there is no requirement for the Issuer to pay any additional amount pursuant to General Condition 8 relating to such withholding.

GENERAL INFORMATION

Incorporation of Appendices

The Financial Statements are attached hereto and form an integral part of this Prospectus. The Financial Statements have been audited or reviewed (as applicable) by KPMG Slovenija d.o.o. who have expressed an opinion on those statements, as stated in their report appearing herein. The reports of KPMG Slovenija d.o.o. appearing together with the financial statements of NKBM set out in this Prospectus are included, in the form and context in which they are included, with the consent of KPMG Slovenija d.o.o.

Availability of Documents

Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at and are available from the specified office of the Issuer at Amstelveenseweg 500, 1081 KL Amsterdam, The Netherlands during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes is listed on the Luxembourg Stock Exchange:

(a) the Financial Statements;

(b) copies of the authorisation listed below; and

(c) the Subordinated Loan Agreement.

Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes. The execution of the Subordinated Loan Agreement by NKBM was approved by resolutions of its management board (the "**Management Board**") dated 9 June 2006 and 2 October 2006. NKBM has obtained all other necessary consents, approvals and authorisations in Slovenia in connection with the Subordinated Loan.

To the best of the Issuer's belief, no consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the Netherlands for the maintenance of the Subordinated Loan or the issue and performance of the Notes.

No Material Change

Save as disclosed in this Prospectus, there has been no material adverse change in the prospects of NKBM since 31 December 2005 nor has there been any significant change in the financial or trading position of NKBM which has occurred since 30 June 2006.

Litigation

NKBM is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NKBM is aware) during the 12 months before the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of NKBM.

Prospectus

Copies of this Prospectus are available free of charge from the Issuer, or may be obtained by telephone (+44 20 7767 8452) and fax (+44 20 7767 7250). Copies of this Prospectus may also be obtained from the offices of The Bank of New York in alliance with ISSNL (as Agent under the Programme) at One Canada Square, London E14 5AL.

INDEX TO FINANCIAL STATEMENTS

KPMG

Review Report

To the Shareholders of Nova Kreditna banka Maribor, d.d., Maribor

We have reviewed the accompanying consolidated balance sheet of Nova Kreditna banka Maribor, d.d., Maribor and its subsidiaries (Nova KBM Banking Group) at June 30, 2006, and at June 30, 2005 and the related consolidated statements of income for the period from January 1, 2006 until June 30, 2006 and for the period from January 1, 2005 until June 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Management has informed us that investments in associates on June 30, 2006 do not include profits from associated companies (Zavarovalnica Maribor, d.d., Moja Nalozba, d.d. and Adria Bank AG) in the estimated amount of SIT 347.3 million as required pursuant to the equity method stated in IAS 28. The effect of this omission on net income of the period from January 1, 2006 until June 30, 2006 would amount to SIT 347.3 million. The same in the amount of SIT 641.0 million applies for the comparative figures.

Management has informed us that consolidated financial statements do not include income tax expense and tax related liabilities as required by IAS 12. The effect of this omission on net income of the period from January 1, 2006 until June 30, 2006 would amount to SIT 1.461,5 million, which represents one half of estimated tax expense for the NKBM Banking Group on annual level. Estimated amount of SIT 1.444,5 million applies for the comparative figures.

Based on our review, except for the effects of the items described in paragraph 3 and 4 nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects in accordance with International Financial Reporting Standards as adopted by the EU.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Boris Drobnič, B.Sc.Ec.

Certified Auditor

Partner

Ljubljana, 1 September 2006

KPMG Slovenija, d.o.o.

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE

	in thousands of SIT	
	2006	**2005**
Interest income	21,303,443	18,859,437
Interest expense	(9,195,359)	(7,989,155)
Net interest income	**12,108,084**	**10,870,282**
Fee and commission income	5,671,659	5,271,579
Fee and commission expense	(1,212,430)	(1,062,551)
Net fee and commission income	**4,459,229**	**4,209,028**
Dividend income	21,139	514,610
Income from associates	-	-
Net trading income	(50,089)	1,145,166
Income from sale of subsidiaries	-	144,737
Other operating income	1,421,914	1,415,556
Operating income	**17,960,277**	**18,299,379**
General administrative expenses	(10,325,127)	(9,854,694)
Depreciation and amortisation	(1,297,593)	(1,174,093)
Other expenses	-	-
Operating expenses	**(11,622,720)**	**(11,028,787)**
Impairment for losses	(1,906,798)	(2,882,128)
Profit before tax	**4,430,759**	**4,388,464**
Income tax expense	(327,029)	-
Income after tax	**4,757,788**	**4,388,464**

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE

	in thousands of SIT	
	2006	**2005**
Assets		
Cash and balances with Central Bank	23,320,029	19,967,796
Due from other banks, net	63,049,648	62,237,804
Financial assets at fair value through profit or loss	40,885,057	16,256,401
Loans and advances to customers	485,463,672	387,128,094
Available-for-sale financial assets	147,239,166	93,850,079
Held-to-maturity investments	85,369,456	135,070,600
Investments in associates and other investments	8,748,422	8,916,945
Unconsolidated investment in subsidiary	441,947	439,071
Intangible assets	4,912,631	4,336,243
Property and equipment	17,531,030	15,163,921
Accrued income, other assets and deferred tax assets	41,935,964	22,681,686
Total assets	**918,897,022**	**766,048,640**
Liabilities		
Due to other banks	13,224,585	6,335,431
Due to other customers	584,519,539	535,482,725
Debt securities in issue	48,678,203	49,399,059
Other borrowed funds	158,553,801	63,868,844
Accruals, provisions, other liabilities and deferred tax liabilities	22,595,742	19,314,062
Subordinated liabilities	22,154,727	22,118,452
Total liabilities	**849,726,597**	**696,518,573**
Minority interest	**2,315,807**	**2,142,939**
Shareholders' equity		
Share capital	5,839,496	5,839,496
Retained profits	20,051,303	21,639,736
Reserves	40,963,819	39,907,896
Equity attributable to equity holders of the parent	**66,854,618**	**67,387,128**
Total equity	**69,170,425**	**69,530,067**
Total liabilities and shareholders' equity	**918,897,022**	**766,048,640**

KPMG

Report of the independent auditor to the shareholders of Nova Kreditna banka Maribor d.d., Maribor

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

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

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

KPMG Slovenija, d.o.o.
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Ljubljana, 10 May 2006

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED

in millions of SIT

	Notes	2005	2004
Interest income		37,560	38,130
Interest expense		(16,720)	(18,140)
Net interest income	3	**20,840**	**19,990**
Fee and commission income		11,156	9,881
Fee and commission expense		(2,383)	(2,084)
Net fee and commission income	4	**8,773**	**7,797**
Dividend income		600	307
Income from associates and other income from subsidiaries	5	1,389	1,104
Net trading income	6	4,268	2,621
Gain from sale of subsidiaries		161	
Other operating income	7	3,824	3,869
Operating income		**39,855**	**35,688**
General administrative expenses	8	(20,550)	(19,832)
Depreciation and amortization	9	(2,120)	(3,227)
Other expenses		(1,198)	(1,208)
Operating expenses		(23,868)	**(24,267)**
Impairment losses	10	(5,122)	(5,080)
Profit before tax		**10,865**	**6,341**
Income tax expense	11	(2,889)	(3,513)
Profit for the period		7,976	2,828
Attributable to:			
Minority interest		143	137
Equity holders of the parent		**7,833**	**2,691**

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER

in millions of SIT

	Notes	2005	2004
Assets			
Cash and balances with the Central Bank	13	17,991	27,832
Due from other banks	14	79,304	51,241
Financial assets at fair value through profit or loss	15	48,242	4,548
Loans and advances to customers	16	411,553	351,686
Available-for-sale financial assets	17	94,552	82,863
Held-to-maturity investments	18	119,970	143,462
Investments in associates and other investments	19	10,754	9,287
Unconsolidated investment in subsidiary	20	442	438
Intangible assets	21	4,740	4,273
Property and equipment	22	19,895	14,292
Accrued income, other assets and deferred tax assets	23	31,164	26,915
Total assets		**838,607**	**716,837**
Liabilities			
Due to other banks	24	5,459	8,521
Due to customers	25	554,932	517,019
Debt securities in issue	26	49,527	40,240
Other borrowed funds	27	118,831	52,642
Accruals, provisions, other liabilities and deferred tax liabilities	28	26,893	20,738
Subordinated liabilities	29	22,116	22,135
Total liabilities		**777,758**	**661,295**
Minority interest	31	1,938	1,911
Shareholders' equity			
Share capital	32	5,840	5,840
Retained profits		7,153	5,298
Reserves		45,918	42,493
Equity attributable to equity holders of the parent		**58,911**	**53,631**
Total equity		**60,849**	**55,542**
Total liabilities and shareholders' equity		**838,607**	**716,837**

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

The Management Board confirms Group's Financial Statements and related Notes to Financial Statements.

Manja Skernišak
Member of the Management Board

Matjaž Kovačič
President and CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in millions of SIT

	Share capital	General banking reserve	Capital reserve	Statutory / legal reserve	Revaluation reserve	Retained profits	Total
Balance at 31 December 2003	**5,600**	**7,414**	**0**	**28,722**	**1,294**	**5,947**	**48,977**
Increase of share capital	240	-	1,567	-	-	-	1,807
Dividend for 2003	-	-	-	-	-	(1,715)	(1,715)
Revaluation of available-for sale financial instruments	-	-	-	-	1,694	-	1,694
Profit for the period	-	-	-	-	-	2,691	2,691
Transfer to general banking reserve	-	60	-	-	-	(60)	-
Transfer to statutory / legal reserve	-	-	-	1,565	-	(1,565)	-
Other	-	177	-	-	-	-	177
Balance at 31 December 2004	**5,840**	**7,651**	**1,567**	**30,287**	**2,988**	**5,298**	**53,631**
Dividend for 2004	-	-	-	-	-	(1,055)	(1,055)
Revaluation of available-for sale financial instruments	-	-	-	-	(1,498)	-	(1,498)
Profit for the period	-	-	-	-	-	7,833	7,833
Transfer to statutory / legal reserve	-	-	-	4,173	-	(4,173)	-
Increase of general banking reserve		750				(750)	-
Balance at 31 December 2005	**5,840**	**8,401**	**1,567**	**34,460**	**1,490**	**7,153**	**58,911**

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED

in millions of SIT

	2005	2004
Cash flows from / (used in) operating activities:		
Net income before tax	10,865	6,341
Investment in associates	(1,386)	(1,104)
Depreciation and amortization	2,120	3,227
Gain/loss on disposal of fixed assets	(52)	(72)
Dividend received	(600)	(307)
Impairment loss	5,122	5,080
Income tax expense	(2,889)	(3,513)
Cash flows from operating profits before changes in operating assets and liabilities	**13,180**	**9,652**
Changes in operating assets and liabilities:		
Cash and balances with the Central Bank	4,158	(3,649)
Due from other banks	(7,014)	(29,184)
Financial assets at fair value through profit or loss	(3)	-
Loans and advances to customers	(63,264)	(90,437)
Available-for-sale financial assets	(13,187)	4,076
Held-to-maturity investments	23,492	(29,391)
Other assets, including tax assets	(4,709)	(1)
Due to other banks	(3,062)	(2,485)
Due to customers	37,913	108,536
Accruals, provisions and other liabilities	5,161	1,928
Subordinated liabilities	(19)	15,003
Net cash used in operating activities	**(7,354)**	**(15,952)**
Cash flows from / (used in) investing activities:		
Acquisition of property and equipment	14	(6,255)
Proceeds from sale of property and equipment	(8,268)	976
Investments in associates	(81)	(125)
Investments in subsidiaries	(4)	-
Dividends received from associates	600	307
Net cash flows used in investing activities	**(7,739)**	**(5,097)**
Cash flows from / (used in) financing activities:		
Debt securities in issue	9,287	22,462
Issue of share capital	-	1,984
Other borrowed funds	66,189	15,248
Dividends paid	(1,055)	(1,715)
Net cash flows from financing activities	**74,421**	**37,979**
Increase in cash	**59,328**	**16,930**
Cash and cash equivalents at beginning of year	**44,303**	**27,373**
Cash and cash equivalents at end of year	**103,631**	**44,303**

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

1. General Information and basis of presentation

Nova Kreditna banka Maribor d.d. (the bank) is a Slovenian universal commercial bank incorporated under the laws of Slovenia. The majority shareholder is the Republic of Slovenia, who owns 90.4% of the shares. The remaining 9.6% is split equally between the Kapitalska družba d.d. (Capital Fund of the Republic of Slovenia) and the Slovenska odškodninska družba d.d. (Compensation Fund of the Republic of Slovenia).

The registered office of Nova Kreditna banka Maribor d.d. ("Nova KBM") is Maribor Ulica Vita Kraigherja 4.

The consolidated financial statements of the Bank for the year ended 31 December 2005 consist of the financial results of the Bank and its subsidiaries, together referred to as the "Group".

The financial statements were authorised for issue by the Directors on 08 May 2006.

2. Summary of Significant Accounting Policies

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB Standing Interpretations Committee of the IASB.

(b) Basis of Preparation

The reporting currency used in financial statements is Slovene Tolar ("SIT") with rounding to the nearest SIT million, unless otherwise specified.

The financial statements have been prepared under the historical cost basis, modified by the revaluation of; available-for-sale investment securities, financial assets at fair value through profit or loss and derivative financial instruments. The members of the Group follow uniform accounting policies for similar transactions.

(c) Basis of Accounting

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognized when they occur and they are reported in financial statements of the periods to which they relate, and on the going concern basis. The consolidated financial statements consists of: the balance sheet, income statement, statement of changes in equity, cash flow statement and explanatory notes to the financial statements.

The preparation of financial statements in conformity with IFRS requires management to make 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. These estimates are based on the information available as of the date of the consolidated financial statements. The subsequent actual results could thus differ from those estimates.

(d) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are those companies controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to

obtain benefits from its activities. It means that the Bank holds more than 50% of ownership or the Bank's control over the management of the company is not limited or restricted. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
The following subsidiary companies are included in consolidated financial statements of the Nova KBM d.d. Group:

- KBM FINEKO d.o.o., in which the Bank holds 100% ownership,
- KBM INFOND d.o.o., in which the Bank holds 68% ownership,
- KBM LEASING d.o.o., in which the Bank holds 100% ownership,
- KBM INVEST d.o.o., in which the Bank holds 99.37% ownership,
- GORICA LEASING d.o.o., in which the Bank holds 100% ownership,
- POŠTNA BANKA SLOVENIJE d.d., in which the Bank holds 55% ownership and
- M-PAY d.o.o., in which the Bank holds 50% ownership.

(ii) Associates

Associate companies are those entities which the Bank cannot control, but over which it has significant influence as a consequence of a 20% to 50% share ownership. Investments in associate companies are accounted for using the equity method of accounting. Equity accounting involves recognizing in the income statement the Group's share of the associates' profit or loss for the period. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of net assets of the associate.

The following associated companies are included in consolidated financial statements of the Nova KBM d.d.Group using the equity method of accounting:

- ADRIA BANK AG, in which the Bank holds 25.04% ownership,
- ZAVAROVALNICA MARIBOR d.d., in which the Bank holds 49.96% ownership,
- MOJA NALOŽBA d.d., in which the Bank holds 45% ownership.

(e) Introduction of amended IFRS

In 2004, the Group applied amended IAS 39 Financial Instruments: Recognition and Measurement, effective for annual periods beginning on or after 1 January 2005 (earlier application permitted). The first application of amended IAS 39 permits an entity to designate a previously recognised financial asset as a financial asset at fair value through profit or loss or available-for-sale financial assets, which resulted in the reclassification of the Group's financial assets.

(f) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into SIT at year end at the mid exchange rate declared by the Central Bank ("CB") on the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Slovenian Tolars in the underlying accounting system of the Group and are therefore reported in financial statements at the mid exchange rate of the Central Bank prevailing at the transaction date. Gains and losses arising on monetary assets from movements in exchange rates are included in '*Net trading income'*.

(g) Financial instruments

In preparing accounting and financial statements for 2004 the Bank applied the amended IAS 39. By applying this standard, the Bank reclassified the majority of its Securities held for trading as 'Securities available-for-sale'. A portion of Investments held-to-maturity was also reclassified into 'Securities available- for-sale'. In the interest of consistency as well as for comparative purposes, the standard was applied retrospectively.

(i) Classification

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets (equity and debt securities, treasury bills) acquired by the Group for the purpose of generating a profit from short-term price fluctuations.

Interest earned on trading securities is reported as '*Interest income*' in the income statement.
Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet under '*Prepayments, accrued income and other assets'* and in '*Dividend income'* in the income statement.

All purchases and sales of financial assets at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ('regular way purchases and sales') are recognised as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

<u>Held-to-maturity Investments</u>

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity. This portfolio consists of treasury bills and debt securities. Held-to-maturity investments are carried at amortized cost.

The Group assesses on a regular basis whether there is any objective evidence that an investment held-to- maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. A financial asset's carrying amount is the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. Any impairment losses recognised during the reporting period are included in the income statement as an '*Impairment loss'.*

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are those securities that are not classified as financial assets at fair value through profit or loss or held-to-maturity investments. This portfolio consists of equity securities and debt securities.

Interest earned on securities available-for-sale is reported as 'Interest income' in the income statement.

Dividends on securities available-for-sale are recorded as declaration date and are included as a receivable in the balance sheet line '*Prepayments, accrued income and other assets'* and in '*Dividend income*' in the income statement. Upon payment of the dividend, the receivable is offset against the cash received.

Available-for-sale financial assets are stated at fair value by applying the valuation technique that takes into account the scope and the depth of the respective market.

Unrealised gains and losses arising from changes on the fair value of securities classified as available-for- sale financial assets are recognised directly in equity, through the Statement of changes in equity in the 'Realuation reserve'. When such financial assets are subsequently derecognised, the difference between the carrying amount and fair value previously recognised in equity, is transferred to the income statement, and included in the line '*Net trading income'.*

<u>Derivative financial instruments</u>

In the normal course of business the Group engages as a party to contracts for derivative financial instruments which represent a very low initial investment compared to the notional value of the contract.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently re-measured to fair value.

Loans and Loan Impairment

Loans originated by the Group by providing money directly to a borrower are categorised as loans originated by the Group and are carried at amortised cost. All loans and advances are recognised when funds are advanced to borrowers.

Loans are reported at their outstanding unpaid principal balances increased by any accrued interest and reduced by any commissions and impairment for loan losses, net of any deferred fees or costs of loan origination. Impairment is made for any amounts for which, in the opinion of management, the recovery is uncertain. The amount of the impairment is based on the discounted cash flow of the future receivables associated with the loan.

A specific credit risk provision has been created to provide for management's estimate of credit losses that may arise as soon as the recovery of an exposure is considered to be doubtful. In the case of loans to borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made, and additional country risk impairment is established as necessary.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement, if previously written off.

The Group must, within the framework of prescribed and internal criteria, classify balance sheet and off-balance-sheet asset items according to their level of risk and evaluate potential losses deriving from credit risks. Specific provisions for impairment losses that the Group establishes according to classification of claims in groups B, C, D and E are recorded as the value adjustments of claims on the assets side of the balance sheet. Impairment for potential losses that the Group establishes for claims in group A, are also recorded as the value adjustments of claims on the asset side of balance sheet.

(ii) Recognition

The Group recognises financial assets at fair value through profit or loss and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised in the consolidated financial statements. Held-to-maturity investments as well as loans and receivables are recognised on the day they are transferred to the Group.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all financial assets and liabilities at fair value through profit or loss and all available-for-sale assets are measured at fair value with the exception of financial instruments whose fair value cannot be measured reliably. The latter financial instrumets include those which do not have a quoted market price in an active market and they are stated at cost (including transaction costs), less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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 an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains or losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of financial assets or liabilities at fair value through profit or loss are recognised in the income statement.

(h) Intangible assets

Intangible assets encompass investments in computer software, licences and costs capitalised to assets owned by others. They are amortized on the straight-line basis either at 20% per annum, or the contractual duration of a specific licence, and the annual amortisation charge is included in the income statement in 'Depreciation and amortisation'.

Depreciation on self-constructed intangible assets commence when the assets are available for use.

An impairment adjustment is made at the end of the year if the carrying amount of the intangible asset exceeds its recoverable amount.

The Group does not record increases in the book value of intangible assets.

(i) Property, plant and equipment

Property and equipment are stated at cost, together with the annual revaluation, less accumulated depreciation and any impairment losses.

The Group periodically tests its property, plant and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. The write off is recognised in the income statement as in impairment loss.

Gains and losses on the disposal of assets are determined by reference to their carrying amount and are taken into account in determining operating income. Repairs and renewals are charged to the income statement when the expenditure is incurred. Reversals of impairment losses, which arise as a result of changes in the estimates used to determine the recoverable amount of the assets, are recognized as income immediately in the income statement.

The Group does not record increases in the book value of its property, plant and equipment.

The costs of increase the value of the property and equipment are capitalized.

Depreciation is calculated on the straight-line method at rates intended to write off the depreciable amount of items of property, plant and equipment over their estimated useful lives. The depreciation rates applied in the preparation of the consolidated financial statements are:

	2005	2004
	(%)	(%)
Buildings	3.0	5.0
Furniture	6.7 - 25.0	6.7 - 25.0
Computers	33.33	50.0
Motor vehicles	12.5	25.0
Finance leases	12.5	33.3

(j) Leases

Leases are classified as finance leases when the lease agreement transfers to the lessee substantially all the risks and rewards of ownership. All other leases are classified as operating leases.

The Group as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the Group's net investment outstanding in respect of the relevant leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessee
Assets held under finance leases are recognized as assets of the Group at their fair value at acquisition date. The corresponding liability due to the lessor is included in the consolidated Balance Sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charge to the consolidated income statement over the duration of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals due under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease.

(k) Provisions and impairment losses

The Group recognizes a provision only when all of the following criteria are met:

- It has 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.

(l) Provisions for charges and for guarantees and other off-balance sheet credit related commitments

In the normal course of business the Group enters into credit related commitments, which are recorded in off-balance-sheet accounts. These commitments primarily include guarantees, letters of credit and unused loan commitments. Specific provisions are made for estimated losses on these commitments on the same basis as set out in note (k).

Provisions for off-balance-sheet exposures are recorded in other provisions disclosed within the balance sheet category “Other liabilities” (Refer to note 28).

(m) Provisions for General Banking Reserves and Other General Provisions

The Group sets aside a general provision for risks that are judged by management to be present at the balance sheet date, but which has not been allocated to specific or individual exposures.

Provisions for general banking risks and the movement thereon are recorded within equity in accordance with IAS 30.

(n) Debt Securities in Issue

Debt securities issued by the Group are stated at amortised cost using the effective interest rate method. Interest expense arising on the issue of debt securities is included in the income statement line item ‘*Interest expense.’*

In the event of the repurchase of its own debt securities, the Group de-recognises these debts so as to reflect the economic substance of the transaction as a repayment of the Group’s commitment. The Group reflects the decrease in its liabilities in the balance sheet line ‘*Debt securities in issue* ’. Gains and losses arising as a result of the repurchase of the Group’s own debt securities are included in ‘*Net trading income’* or in ‘*Net interest income.*’ The Group reports the repurchased debt securities as assets only if a contractual commitment to resell the securities in the future exists.

(o) Interest, Discount received and Discount allowed

Interest is calculated in accordance with Slovenian law and agreements between the Group and its clients. Interest is added to the principal if this is stipulated in the agreement.

Interest, discount received and discount allowed are recognized in the financial statements using the effective interest rate method.

The recognition of interest income ceases as soon as the receipt of the interest is in doubt. Interest is included in income thereafter only for performing loans. The income from doubtful claims is included in the statement of income only when received.

(p) Fees and Commission Income and Expense

Fees and commission income and expense consist of commissions on domestic and foreign payment traffic, fees arising from guarantees and loans given by the Group and from other services. Fees and commission income and expense are recognized in the income statement under the same convention as interest income and expense.

Commission income arising from loans with a maturity date of over one year, is deferred and taken to income an a straight line basis.

(q) Taxation

Current tax is determined in accordance with the provisions of the relevant legislation of the Republic of Slovenia. In accordance with such legislation, banks calculate tax on profit as 25% of taxable profits.

Deferred taxation is provided using the balance sheet liability method for all temporary differences arising between the tax bases of assets or liabilities and their carrying amount for financial reporting purposes. Currently enacted tax rates are used to determine the deferred tax balance.

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

(r) Sale and Repurchase Agreements

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet lines '*Financial asset at fair value through profit or loss*' and '*Available-for-sale financial asset*' and the counterpart liability is included in '*Due to banks*' or '*Due to customers*' as is appropriate under the relevant circumstances. Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the balance sheet line '*Due from banks*' or '*Loans and advances to customers*' as appropriate, with the corresponding decrease in cash being included in '*Cash and balances with the Central Bank*.' The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

(s) Segmental Reporting

The condensed financial statements of subsidiaries, representing separate segments of the business other than banking, are not presented due to their immateriality. The Group has no significant operations outside of Slovenia.

(t) Regulatory requirements

The Group is subject to the regulatory requirements of the Central Central Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk, liquidity, interest rate and foreign currency position.

(u) Comparatives

Where appropriate, certain comparative figures have been reclassified to conform to the presentation in the current year.

The opening adjustments in note 14, 16 and 23 primarily represent the reclassification between provisions (treated as a liability in the audited 2004 financial statements) and impairment or consolidation differences.

(v) Estimation of fair values

The following is the summary of the major methods and assumptions used in estimating the fair values of financial instruments as reflected below.

Loans and advances: Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. Quoted market prices for instruments backed by similar loans, adjusted for different loan characteristics, are also used in estimating fair value. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments carried at cost and derivatives: Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques. 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 for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

Bank and customer deposits: For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long term relationships with depositors is not taken into account in estimating fair values.

Long-term debt: Fair value is based on quoted market prices, if available. For debt instruments without quoted prices, the fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Group for new debt of a similar type and remaining maturity period.

3. Net interest income

in millions of SIT

	2005	2004
Interest income		
- Cash and balances with the Central Bank	933	353
- Loans to banks	1,367	538
- Loans and advances to customers	23,862	23,911
- Securities	10,426	12,273
- Other	972	1,055
Total interest income	**37,560**	**38,130**
Interest expense		
- Balances with the Central Bank	2	9
- Bank deposits	275	685
- Customer deposits	10,705	13,097
- Debt securities	3,494	2,738
- Other borrowed funds	2,108	1,450
- Other	136	161
Total interest expense	**16,720**	**18,140**
Net interest income	**20,840**	**19,990**

4. Net fee and commission income

in millions of SIT

	2005	2004
Fee and commission income		
- Guarantees given by the Group	581	590
- Domestic payment traffic	3,654	3,200
- Foreign payment traffic	986	1,013
- Intermediary and commission services	20	27
- Securities services	12	168
- Commission from loans	1,358	891
- Administrative services	4,487	3,941
- Depot and vault	5	5
- Other services	53	46
Total fee and commission income	**11,156**	**9,881**
Fee and commission expense		
- Domestic banking services	1,371	1,290
- Foreign payment traffic	408	313
- Foreign exchange services	143	109
- Stock exchange services	31	49
- Domestic payment traffic	184	109
- Other services	246	214
Total fee and commission expense	**2,383**	**2,084**
Net fee and commission income	**8,773**	**7,797**

5. Income from associates and other income from subsidiaries

in millions of SIT

	2005	2004
Zavarovalnica Maribor d.d.	1,287	1,077
Adria Bank AG	111	57
Moja naložba d.d.	(12)	(32)
City MB d.o.o.	-	2
KBM Infond d.o.o.	3	2
Total	**1,389**	**1,104**

6. Net trading income

in millions of SIT

	2005	2004
Net realised gains on foreign exchange	733	1,183
Net realised gains on derivative financial instruments	0	50
Net unrealised gains/(losses) on derivative financial instruments	41	184
Net realised gains on financial assets at fair value through profit or loss	991	786
Net unrealised gains on financial assets at fair value through profit or loss	2,373	418
Other	130	-
Net trading income/expenses	**4,268**	**2,621**

7. Other operating income

in millions of SIT

	2005	2004
Income from non-banking services	3,709	3,711
Profit on sale of property, plant and equipment	94	134
Other operating income	21	24
Other operating income	**3,824**	**3,869**

Other operating income consists of income from renting business facilities, POS terminals, recreation facilities, apartments and other income.

8. General administrative expenses

in millions of SIT

	2005	2004
Employee costs		
- salaries	8,713	8,517
- social security costs	1,342	1,321
- other employee costs	1,724	1,739
Material costs	1,147	870
Service costs		
- operating lease	737	681
- professional services	292	285
- maintenance	1,445	1,678
- advertising and promotion	1,133	916
- insurance costs	173	116
- educational costs	165	129
- other	3,679	3,580
Total general administrative costs	**20,550**	**19,832**
Salaries of the Management Board	324	319

The average number of employees during 2005 was 1,830 (2004: 1,859).

9. Depreciation and amortization

in millions of SIT

	2005	2004
Depreciation of property and equipment	1,536	2,232
Amortization of intangible assets	584	995
Total depreciation and amortization	**2,120**	**3,227**

10. Impairment losses

in millions of SIT

	2005	2004
Write-down		
Balance sheet items		
Due from Banks	***643***	***48***
Due from Banks	325	
Due from Banks - specific provision - legal cases	318	
Loans and advances to customers	***3,812***	***5,030***
Loans and advances to customers	2,398	
Loans and advances to customers - write off	207	
Loans and advances to customers - spec. provision - suit	372	
Loans and advances to customers - spec. provision - other	835	
Other assets	***301***	***643***
Other assets	175	
Other assets - write off	90	
Other assets - other	36	
Off balance sheet items	***366***	***(641)***
Total provision for losses	**5,122**	**5,080**

11. Income tax expense

in millions of SIT

	2005	2004
Current tax expense	2,500	1,603
Deferred tax expense	389	198
Balance sheet tax	0	1,712
Total	**2,889**	**3,513**
Income before tax	**10,865**	**6,341**
Prima facie tax calculated at a tax rate of 25% (2004:25%)	2,716	1,587
Expenses not deductible for tax purposes	(216)	1,728
Deferred tax expense	389	198
Tax expense	**2,889**	**3,513**

12. Deferred income taxes

in millions of SIT

	2005	2004
Deferred tax assets	**545**	**110**
- from striking deposits	265	0
- from legal cases	20	0
- from financial instruments	28	0
- from other	39	0
- from derivative financial instruments	(4)	(53)
- from fee	197	163
Deferred tax liabilities	**934**	**308**
- from financial assets at fair value through profit or loss	721	105
- from derivative financial instruments	6	(7)
- from rated credit client's (per Central Bank regulation)	207	210
Net deferred tax liabilities	**(389)**	**(198)**

13. Cash and balances with the Central Bank

in millions of SIT

	2005	2004
Cash on hand	8,237	7,179
Balances with the Central Bank	9,754	20,653
Total cash and balances with the Central Bank	**17,991**	**27,832**

The Group was required to maintain an obligatory reserve with the Central Bank, relative to the volume and structure of its customers' deposits. Balances with the Central Bank included obligatory reserve deposits of SIT 5,409 million (2004: SIT 9,567million). These funds are not available to finance the Group's day to day operations.

14. Due from other banks

	2005	2004
		in millions of SIT
Placements with other banks	56,651	31,616
Loans and advances to other banks	23,231	19,878
Total	**79,882**	**51,494**
Less impairment	(578)	(253)
Total net of impairment	**79,304**	**51,241**

Movements in impairment were as follows:

Balance at 1 January	**253**	**56**
Opening adjustment	7	216
Increase in impairment (Note 10)	416	61
Decrease in impairment (Note 10)	(98)	(80)
Balance at 31 December	**578**	**253**

15. Financial assets at fair value through profit or loss

Held for trading financial assets

in millions of SIT

	2005	2004
Shares and participation certificates	**8,339**	**1,641**
Debt securities	**39,903**	**2,907**
Fixed income debt securities		
- Bonds	25,899	2,443
- Certificate of deposits		50
- Treasury bills		414
Variable income debt securities		
- Bonds	14,004	-
Total held for trading financial assets	**48,242**	**4,548**

Held for trading shares and participation certificates comprise:

in millions of SIT

	2005	2004
Shares and participation certificates in Slovenian Tolars		
- listed	7,643	912
- unlisted	562	621
Shares and participation certificates in other currencies		
- listed	134	108
Total shares and participation certificates held for trading	**8,339**	**1,641**

Held for trading shares and participation certificates, allocated by issuer comprise:	in millions of SIT	
	2005	**2004**
- Domestic financial institutions	2,962	316
- Other money institutions	15	-
- Foreign non-financial institutions	-	21
- Other domestic entities	5,362	1,199
- Foreign financial institutions	-	105
Total shares and participation certificates held for trading	**8,339**	**1,641**

Held for trading debt securities comprise:	in millions of SIT	
	2005	**2004**
Fixed income debt securities		
- Slovene Tolars	1,615	2,906
- Other currencies	38,288	1
Total held for trading debt securities	**39,903**	**2,907**

Held for trading debt securities, allocated by issuer, comprise:	in millions of SIT	
	2005	**2004**
Held for trading debt securities issued by:		
- Domestic financial institutions	1,050	245
- Domestic state institutions	565	2,343
- Other foreign entities	37,855	
- Other domestic entities	433	319
Total held for trading debt securities	**39,903**	**2,907**

16. Loans and advances to customers

	in millions of SIT	
	2005	**2004**
Overdrafts	15,923	14,383
Credit cards	566	490
Short term loans		
- Slovene Tolars	123,714	142,211
- Other currencies	99,299	66,629
Long term loans		
- Slovene Tolars	122,849	113,003
- Other currencies	83,283	46,611
Claims from granted guarantees	1,053	1,095
Gross loans and advances	**446,687**	**384,422**
Impairment	(35,134)	(32,736)
Net loans and advances	**411,553**	**351,686**

Movement in impairment were as follows	in millions of SIT	
	2005	**2004**
Balance at 1 January	**32,736**	**25,795**
Opening adjustment	(250)	2,705
Doubtful debts, impairment made	19,190	19,461
Recoveries and releases	(16,542)	(15,225)
Balance at 31 December	**35,134**	**32,736**

Loan portfolio by sectors was as follows				in millions of SIT
	2005		**2004**	
Non-financial corporations	260,044	58.2	232,868	60.6
General government	6,178	1.4	7,560	2.0
Financial institutions	13,935	3.1	12,502	3.2
Citizens	152,585	34.2	123,892	32.2
Non-residents	12,944	2.9	6,937	1.8
Non-profit institutions serving households	1,001	0.2	663	0.2
Gross loans and advances	**446,687**	**100.00**	**384,422**	**100.00**
Impairment	(35,134)		(32,736)	
Net loans and advances	**411,553**		**351,686**	

Loans guaranteed by the Republic of Slovenia or Slovenian banks:

		in millions of SIT
	2005	**2004**
Republic of Slovenia guarantees	15,773	15,378
Slovenian bank's guarantees	522	307
Total	**16,295**	**15,685**

17. Available-for-sale financial assets

		in millions of SIT
	2005	**2004**
Bonds		
- Fixed yield	50,808	10,519
- Variable yield	19,732	49,998
Treasury bills with fixed yield	209	12,410
Other bills with fixed yield - cash certificate	23,803	2,798
Shares	-	6,716
Certificate of deposit with fixed yield	-	317
Other	-	105
Total available-for-sale financial assets	**94,552**	**82,863**

Available-for-sale financial assets by currency comprise:		in millions of SIT
	2005	**2004**
Bonds		
- Slovene Tolars	59,126	41,119
- Other currencies	11,414	19,398
Treasury bills in Slovene Tolars	209	12,410
Other bills in Slovene Tolars - cash certificate	23,803	2,798
Shares issued in Slovene Tolars	-	6,716
Certificate of deposit with fixed yield in Slovene Tolars	-	317
Other	-	105
Total available-for-sale debt financial assets	**94,552**	**82,863**

Available-for-sale debt financial assets allocated by issuer, comprise:		in millions of SIT
	2005	**2004**
- Domestic state institutions	53,635	50,729
- Central Bank	23,803	12,410
- Domestic financial institutions	9,171	4,726
- Other domestic entities	5,079	4,230
- Foreign institutions	2,864	10,768
Total available-for-sale debt financial assets	**94,552**	**82,863**

18. Held-to-maturity investments

		in millions of SIT
	2005	**2004**
Bonds		
- Fixed yield bonds	21,659	35,257
- Variable yield bonds	45,837	27,208
Treasury bills		
- Fixed yield treasury bills	-	80,702
Other eligible bills		
- Fixed yield other eligible bills	52,474	295
Total held-to-maturity investments	**119,970**	**143,462**

Held-to-maturity debt investments comprise:

		in millions of SIT
	2005	**2004**
Variable yield debt securities		
- Slovene Tolars	45,691	27,062
- Other currencies	146	146
Fixed income debt securities		
- Slovene Tolars	41,912	60,252
- Other currencies	32,221	56,002
Total held-to-maturity debt investments	**119,970**	**143,462**

Held-to-maturity investments, allocated by issuer, comprise:		in millions of SIT
	2005	**2004**
- State institutions in the Republic of Slovenia	64,521	61,454
- Central Bank	51,721	80,702
- Domestic financial institutions	1,089	336
- Other domestic non-financial institutions	1,723	824
- Foreign institutions	916	146
Total held-to-maturity debt investments	**119,970**	**143,462**

19. Investments in associates and other investments

Investments in associated companies and other investments comprise:		in millions of SIT
	2005	**2004**
Shares in associated companies	6,257	4,929
Other investments	4,497	4,358
Total investments in associates and other investments	**10,754**	**9,287**

in millions of SIT

Associated companies	**Group's ownership interest and voting power in %**	**Net book value 2005**	**Net book value 2004**
Zavarovalnica Maribor d.d.	49.96	4,235	2,972
Moja naložba d.d.	45.00	194	161
Adria Bank AG	25.04	1,828	1,768
City MB d.o.o.	31.15	-	28
Total associated companies		**6,257**	**4,929**

in millions of SIT

Companies with minority interest	Group's ownership interest and voting power in %	Net book value 2005	Net book value 2004
Banka Celje d.d.	0.09	27	11
Banka Vipa d.d.	0.05	0	7
Zveza hran. kred. služb d.d. LJ	0.01	0	-
Hranilnica LON d.d.	0.89	0	2
LHB Internationale Handelsbank AG	2.40	306	306
FMR d.o.o. Idrija	3.40	70	70
ISKRA Avtoelektrika d.d. Šempeter	1.50	121	121
IEDC Poslovna šola Bled d.o.o.	6.83	23	25
BANKART d.o.o. Ljubljana	14.01	90	90
Perutnina Ptuj d.d.	0.84	125	118
Marles Holding d.d. Maribor	11.56	265	265
Cestno podjetje Maribor d.d.	10,62	252	-
TVI Majšperk d.o.o.	40,6	0	-
Steklarna Rogaška	30	0	-
Zavarovalnica TRIGLAV d.d. LJ.	0.06	15	15
KDD Centralna klirinško dep.dr. d.d.	4.57	21	21
Pozavarovalnica SAVA d.d. Ljubljana	0.00	7	7
Slovenska izvozna družba d.d. Ljubljana	0.07	10	10
S.W.I.F.T. Scrl	0.02	10	10
Vino Brežice d.d.	4.17	14	27
Medicinsko rehabilitacijski center d.o.o.	8.95	1	2
INFOND ID d.d. Maribor	8.91	1,084	1,084
INFOND ID 1 d.d. Maribor	9.10	517	533
INFOND HOLDING d.d. Maribor	8.93	1,338	1,404
INFOND HOLDING 1 d.d. Maribor	9.05	170	198
Ljubljanska borza d.d. Ljubljana	4.60	26	25
City MB d.o.o.	6.53	5	5
MEBLO PTRC	0.17	0	1
TTRC KOBARID	10.00	0	1
Total companies with minority interest		**4,497**	**4,358**

20. Unconsolidated investment in subsidiary

in millions of SIT

		2005	2004
	Country of incorporation	**Net book value**	**Net book value**
Hotel Slavija d.d.	Slovenia	442	438
Total		**442**	**438**

The company Hotel Slavija d.d., 99.09% (2004: 98.99%) owned by Nova KBM d.d., is not consolidated due to immateriality.

21. Intangible assets

in millions of SIT

	Software licences	**Capitalised costs of investments in foreign tangible assets**	**Goodwill**	**Construction in progress**	**Other tangible assets**	**Total**
Cost or valuation						
At 1 January 2005	**5,595**	**672**	**54**	**1,102**	**230**	**7,653**
Adjustment	-	-	67	-	-	**67**
Additions	25	-	-	1,059	99	**1,183**
Transfers from implementation	1,177	10	-	(1,189)	2	**0**
Disposals	(28)	(33)	(121)	-	(99)	**(281)**
31 December 2005	**6,769**	**649**	**0**	**972**	**232**	**8,622**
Accumulated amortisation						
At 1 January 2005	**2,826**	**465**	**33**	**-**	**56**	**3,380**
Additions	6	-	-	-	68	**74**
Charge for the year	547	37	-	-	0	**584**
Disposals	(27)	(31)	(33)	-	(65)	**(156)**
31 December 2005	**3,352**	**471**	**0**	**0**	**59**	**3,882**
Net book value 31 December 2005	**3,417**	**178**	**0**	**972**	**173**	**4,740**
Net book value 31 December 2004	**2,769**	**207**	**21**	**1,102**	**174**	**4,273**

None of the Group 's intangible assets are pledged as collateral.

in millions of SIT

	Software licences	Capitalised costs of investments in foreign tangible assets	Goodwill	Construction in progress	Other intagible assets	Total
Cost or valuation						
At 1 January 2004	**3,779**	**565**	**54**	**896**	**1**	**5,295**
Additions	808	114	-	1,294	234	**2,450**
Transfers from implementation	1,066	15	-	(1,081)	-	**-**
Disposals	(58)	(22)	-	(7)	(5)	**(92)**
31 December 2004	**5,595**	**672**	**54**	**1,102**	**230**	**7,653**
Accumulated amortisation						
At 1 January 2004	**1,468**	**402**	**22**	**-**	**-**	**1,892**
Additions	500	-	-	-	56	**556**
Charge for the year	916	65	11	-	-	**992**
Disposals	(58)	(2)	-	-	-	**(60)**
31 December 2004	**2,826**	**465**	**33**	**-**	**56**	**3,380**
Net book value 31 December 2004	**2,769**	**207**	**21**	**1,102**	**174**	**4,273**
Net book value 1 January 2004	**2,311**	**163**	**32**	**896**	**1**	**3,403**

None of the Group 's intangible assets are pledged as collateral.

22. Property and equipment

in millions of SIT

	Land and Buildings	Computers	Other assets	Construction in progress	Total
Cost or valuation					
At 1 January 2005	**14,919**	**9,271**	**6,688**	**1,309**	**32,187**
Transfers	(18)	(2)	20	0	**0**
Additions	892	17	522	7,642	**9,073**
Transfers from implementation	1,934	1,563	704	(4,201)	**0**
Disposals	(204)	(457)	(946)	(1,300)	**(2,907)**
31 December 2005	**17,523**	**10,392**	**6,988**	**3,450**	**38,353**
Accumulated depreciation					
At 1 January 2005	**5,024**	**8,465**	**4,406**	**-**	**17,895**
Transfers	(1)	(2)	3	-	**0**
Additions	32	0	36	-	**68**
Charge for the year	454	531	551	-	**1,536**
Disposals	(49)	(450)	(542)	-	**(1,041)**
31 December 2005	**5,460**	**8,544**	**4,454**	**0**	**18,458**
Net book value 31 December 2005	**12,063**	**1,848**	**2,534**	**3,450**	**19,895**
Net book value 31 December 2004	**9,895**	**806**	**2,282**	**1,309**	**14,292**

None of the Group 's property and equipment are pledged as collateral.

in millions of SIT

	Land and Buildings	Computers	Other Assets	Construction in progress	Total
Cost or valuation					
At 1 January 2004	**13,365**	**8,419**	**6,014**	**277**	**28,075**
Transfers	(22)	4	18	-	**-**
Additions	1,481	1,135	1,045	1,859	**5,520**
Transfers from implementation	148	565	269	(827)	**155**
Disposals	(53)	(852)	(658)	-	**(1,563)**
31 December 2004	**14,919**	**9,271**	**6,688**	**1,309**	**32,187**
Accumulated depreciation					
At 1 January 2004	**4,153**	**7,598**	**3,885**	**-**	**15,636**
Transfers	0	1	(1)	-	**-**
Additions	176	773	365	-	**1,314**
Charge for the year	703	943	586	-	**2,232**
Disposals	(8)	(850)	(429)	-	**(1,287)**
31 December 2004	**5,024**	**8,465**	**4,406**	**-**	**17,895**
Net book value 31 December 2004	**9,895**	**806**	**2,282**	**1,309**	**14,292**
Net book value 1 January 2004	**9,212**	**821**	**2,129**	**277**	**12,439**

None of the Group 's property and equipment is pledged as collateral.

23. Accrued income, other assets and deferred tax assets

in millions of SIT

	2005	2004
Accrued interest	4,062	3,124
Accrued costs and prepayments	113	72
Interest receivables	2,316	2,211
Fees and commissions	410	368
Advance payments	139	679
Cheques	31	34
Inventory	3,700	3,200
Items in course of payment	17,433	13,767
Items in course of collection	198	197
Positive fair value of derivative financial instruments	37	24
Deferred tax assets	724	390
Other, of which:	5,066	5,739
- account receivables	2,421	2,599
- other receivables	2,490	3,076
- other	155	64
Total	**34,229**	**29,805**
Impairment	(3,065)	(2,890)
Total	**31,164**	**26,915**

Deferred tax assets

in millions of SIT

	2005	2004
Deferred tax assets		
- from financial assets at fair value through profit or loss	40	0
- from available-for-sale financial assets	0	215
- from derivatives	8	12
- from accrued fee	676	163
Total	**724**	**390**

in millions of SIT

Movements in impairment	**2005**	**2004**
Balance at 31 December 2004	**2,890**	**1,624**
Opening adjustment	(48)	1,274
Increase in impairment	1,200	1,136
Decrease in impairment	(977)	(1,144)
Balance at 31 December 2005	**3,065**	**2,890**

24. Due to other banks

in millions of SIT

	2005	2004
On demand		
- Slovene Tolars	13	7
- Other currencies	2,084	413
Time deposits		
- Slovene Tolars	3,362	7,924
- Other currencies	0	177
Total	**5,459**	**8,521**

25. Due to customers

Amounts owed to customers, by type of customer: in millions of SIT

	2005		2004	
	Sight	Term	Sight	Term
Non-financial corporations	29,971	56,352	24,989	50,870
General government	3,519	16,224	3,310	11,892
Other financial institutions	448	17,492	450	27,377
Citizens	196,491	224,408	179,221	208,611
Non-residents	2,314	2,619	2,589	3,324
Non-profit institutions serving households	3,198	1,896	2,752	1,634
	235,941	**318,991**	**213,311**	**303,708**
Total	**554,932**		**517,019**	

26. Debt securities in issue

in millions of SIT

	2005	2004
Certificates of deposits	8,774	4,820
Bonds	40,753	35,420
Total	**49,527**	**40,240**

27. Other borrowed funds

in millions of SIT

	2005	2004
Banks		
- Slovene Tolars	480	1,094
- Other currencies	100,337	40,158
Other customers		
- Slovene Tolars	4,629	5,840
- Other currencies	13,385	5,550
Total	**118,831**	**52,642**

28. Accruals, provisions, other liabilities and deferred tax liabilities

in millions of SIT

	2005	2004
Creditors	2,341	1,198
Current taxes	1,865	1,387
Accrued interest	3,298	2,499
Liabilities to employees	488	536
Assets in course of payment	6	1
Payments received in advance	305	265
Other provisions	5,613	4,583
Deferred income	63	75
Cash in transit	765	727
Deferred tax liabilities (see below)	1,715	1,582
Derivative financial instruments	30	48
Accrued fee	2,705	1,661
Other, of which	7,699	6,176
- liabilities from interest	574	914
- liabilities from fee - accrued	1,670	9
- other liabilities	5,455	5,253
Total	**26,893**	**20,738**

Other includes liabilities due to payment of money, the postal orders in the national payment system, deferred income deriving from liabilities repurchased by the Group.

Deferred tax liabilities

in millions of SIT

	2005	2004
Deferred tax liabilities		
- from available-for-sale financial assets	497	1,211
- from derivatives	9	3
- from financial assets at fair value through profit or loss	792	158
- from rated credit client's	417	210
Total	**1,715**	**1,582**

Other provisions

in millions of SIT

	Off balance sheet exposures	Other	Total
Balance at 31 December 2003	**4,649**	**298**	**4,947**
Opening adjustment	1,045	-	1,045
Change of provision	(519)	155	(364)
Balance at 31 December 2004	**4,130**	**453**	**4,583**
Opening adjustment	84	18	102
Change of provision	218	710	928
Balance at 31 December 2005	**4,432**	**1,181**	**5,613**

29. Subordinated liabilities

in millions of SIT

	Due	Currency	Interest rate	2005	2004
1. Subordinated notes	2009	EUR	6M EURIBOR+1.7%	7.187	7.192
2. Subordinated loans				-	6
				-	450
			TOM + 1.6%	300	-
			TOM + 3.0%	150	-
3.Subordinated notes	2011	EUR	3M EURIBOR+1.1%	11,979	11,987
		SIT	TOM + 6.0%	1,500	1,500
		SIT	TOM + 4.7%	1,000	1,000
Total				**22,116**	**22,135**

30. Commitments and contingent liabilities

a) Financial commitments and contingencies

in millions of SIT

	2005	2004
Guarantees and standby letters of credit in Slovene Tolars		
- Short-term	11,528	13,929
- Long-term	21,584	19,042
Guarantees and standby letters of credit in other currencies		
- Short-term	4,720	4,508
- Long-term	6,276	5,413
Foreign exchange documentary letters of credit		
- Short-term	2,265	1,575
- Long-term	-	17
Documentary letters of credit in Slovene Tolars		
- Short-term	-	-
- Long-term	-	-
Contingencies		
- Short-term	91,131	81,097
- Long-term	1,985	
Financial derivative instruments	78	56
Total	**139,567**	**125,637**

b) Notional amount of derivative financial instruments

in millions of SIT

	2005		
	in tolars	in foreign currency	**Total**
Forward contracts for hedging		813	**813**
Forward contracts for trading		4,047	**4,047**
FX Swaps	13,371	3,114	**16,485**
TOTAL	**13,371**	**7,974**	**21,345**

in millions of SIT

	2004		
	in tolars	in foreign currency	**Total**
Forward contracts for hedging	14	907	921
Forward contracts for trading	1,130	-	1,130
FX Swaps	34,292	13,905	48,197
TOTAL	**35,436**	**14,812**	**50,248**

31. Minority interest

in millions of SIT

	2005	2004
Balance at 1 January	**1,911**	**805**
Increase	27	1,106
Decrease	-	-
Balance at 31 December	**1,938**	**1,911**

32. Share capital

The total authorised number of ordinary shares at year-end 31 December 2005 was 2,919,748 shares (2004: 2,919,748 shares) with a par value of SIT 2,000 (2004: 2,000) per share. The total issued and fully paid share capital is SIT 5,839,496 (2004: SIT 5,839,496). There was no share premium on issue. The Group does not hold treasury shares. The distribution of ordinary shares is as follows:

	2005	2004
Government of the Republic of Slovenia	2,639,748 shares	2,639,748 shares
Compensation Fund of the Republic of Slovenia	140,000 shares	140,000 shares
Capital Fund of the Republic of Slovenia	140,000 shares	140,000 shares

33. Dividends per share

Dividends payable are not accounted for until they have been approved at the Annual General Meeting. At the Bank's Annual General Meeting in July 2005, a dividend of SIT 1,000 million (2004: SIT 1,667 million) was declared and paid during 2005. No accrual has been made in respect of the dividend for the year ended 31 December 2005.

In accordance with the decision made at the 12th Assembly of Nova KBM d.d. of 19 July 2005, the Group paid dividends to shareholders for the year 2004 in the gross amount of SIT 342,50 per share.

34. Foreign exchange position

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Group monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Central Bank established in respect of limits on open positions. The Group seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

	EUR	USD	Other	SIT	Total
Assets					
Cash and balances with the Central Bank	1,333	124	249	16,285	17,991
Due from other banks	20,192	5,816	5,672	47,624	79,304
Financial assets at fair value throuhg profit or loss	37,952	6	-	10,284	48,242
Loans and advances to customers	156,742	3,881	642	250,288	411,553
Available-for-sale financial assets	11,272	142	-	83,138	94,552
Investments held-to-maturity	26,216	6,151	-	87,603	119,970
Investments in associates and other investments	2,144	-	-	8,610	10,754

Unconsolidated investment in subsidiary	-	-	-	442	442
Intangible assets	-	-	-	4,740	4,740
Property and equipment	-	-	-	19,895	19,895
Accrued income, other assets and deferred tax assets	2,362	153	8	28,641	31,164
Total assets	**258,213**	**16,273**	**6,571**	**557,550**	**838,607**
Liabilities					
Due to other banks	1,625	414	46	3,374	5,459
Due to customers	131,133	14,629	5,071	404,099	554,932
Debt securities in issue	-	-	-	49,527	49,527
Other borrowed funds	111,382	984	1,357	5,108	118,831
Accruals, provisions,other liabilities and deferred tax liabilities	1,331	227	19	25,316	26,893
Subordinated liabilities	19,166	-	-	2,950	22,116
Total liabilities	**264,637**	**16,254**	**6,493**	**490,374**	**777,758**
Minority interest	-	-	-	1,938	1,938
Total shareholders' equity	-	-	-	58,911	58,911
Net FX Position at 31 December 2005	**(6,424)**	**19**	**78**	**6,327**	**-**
Off-balance-sheet assets[1]	13,637	2,444	-	3,830	19,911
Off-balance-sheet liabilities[1]	5,530	2,444	-	11,930	19,904
Net off-balance-sheet FX position at 31 December 2005	**8,107**	**-**	**-**	**(8,100)**	**7**
TOTAL NET FX POSITION AT 31 DECEMBER 2005	**1,683**	**19**	**78**	**(1,773)**	**7**
Total assets at 31 December 2004	186,045	16,894	5,114	508,784	716,837
Total liabilities at 31 December 2004	188,325	16,704	5,516	450,750	661,295
Minority interest	-	-	-	1,911	1,911
Total shareholders' equity	-	-	-	53,631	53,631
Net FX position at 31 December 2004	**(2,280)**	**190**	**(402)**	**2,492**	**-**
Net off-balance-sheet FX position at 31 December 2004	**18,685**	**-**	**-**	**(20,034)**	**(1,349)**
TOTAL NET FX POSITION AT 31 DECEMBER 2004	**16,405**	**190**	**(402)**	**(17,542)**	**(1,349)**

[1]Off-balance-sheet assets and liabilities include amounts receivable and payable arising from spot and forward transactions

35. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Group to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'maturity undefined' category. The next repricing period for each respective balance sheet category is as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and balances with the Central Bank	10,408	-	-	-	-	7,583	17,991
Due from other banks	77,777	-	-	-	-	1,527	79,304
Financial assets at fair value through profit or loss	3,396	-	269	10,447	28,890	5,240	48,242
Loans and advances to customers	340,622	14,121	33,119	20,574	2,900	217	411,553
Available-for-sale securities	84,202	-	209	6,449	3,692	0	94,552
Held-to-maturity investments	63,981	20,918	12,023	4,949	18,099	-	119,970
Investments in associates and other investments	-	-	-	-	-	10,754	10,754
Unconsolidated investment in subsidiary	-	-	-	-	-	442	442
Intangible assets	-	-	-	-	-	4,740	4,740
Property and equipment	-	-	-	-	-	19,895	19,895
Accrued income, other assets and deferred tax assets	4,842	1,075	1,744	5,804	2,935	14,764	31,164
Total assets	**585,228**	**36,114**	**47,364**	**48,223**	**56,516**	**65,162**	**838,607**
Liabilities							
Due to other banks	2,055	1,342	631	1,147	-	284	5,459
Due to customers	442,395	64,944	39,595	6,302	553	1,143	554,932
Debt securities in issue	36,713	-	3,050	5,764	4,000	-	49,527
Other borrowed funds	115,733	506	1,925	368	39	260	118,831
Accruals, provisions,other liabilities and deferred tax liabilities	1,323	144	442	1,970	-	23,014	26,893
Subordinated liabilities	19,316	-	-	1,500	1,300	-	22,116
Total liabilities	**617,535**	**66,936**	**45,643**	**17,051**	**5,892**	**24,701**	**777,758**
Minority interest	-	-	-	-	-	1,938	1,938
Total shareholders' Funds	-	-	-	-		58,911	58,911
On-balance-sheet interest rate sensitivity gap at 31 December 2005	**(32,307)**	**(30,822)**	**1,721**	**31,172**	**50,624**	**(20,388)**	**-**
Off-balance-sheet interest rate assets	-	-	-	-	-	868,658	868,658
Off-balance-sheet interest rate liabilities	-	-	-	-	-	868,658	868,658
Off-balance-sheet interest rate sensitivity gap at 31 December 2005	-	-	-	-	-	-	-
TOTAL INTEREST RATE SENSITIVITY GAP AT 31 DECEMBER 2005	**(32,307)**	**(30,822)**	**1,721**	**31,172**	**50,624**	**(20,388)**	**-**

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Total assets at 31 December 2004	464,268	66,702	61,486	44,260	21,452	58,669	716,837
Total liabilities at 31 December 2004	522,521	58,757	38,000	17,119	5,803	18,095	661,295
Minority interest	-	-	-	-	-	1,911	1,911
Total Shareholders' Funds						53,631	53,631
On-balance-sheet interest rate sensitivity gap at 31 December 2004	**(58,253)**	**7,945**	**23,486**	**27,141**	**15,649**	**(14,968)**	**-**
Off-balance-sheet interest rate sensitivity gap at 31 December 2004	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL INTEREST RATE SENSITIVITY GAP AT 31 DECEMBER 2004	**(58,253)**	**7,945**	**23,486**	**27,141**	**15,649**	**(14,968)**	**-**

Average interest rates as of 31 December 2005 and 2004

The average interest rates for December 2005 and 2004 calculated as a weighted average for each asset and liability category.

Assets	Average rate in 2005		Liabilities	Average rate in 2005	
	SIT	Foreign currency		SIT	Foreign currency
Cash and balances with the Central Bank	1.0	-	Due to other banks	2.2	2.5
Due from other banks	4.3	3.6	Due to customers	2.4	1.2
Financial assets at fair value through profit or loss	-	3.9	Debt securities in issue	5.3	-
Loans and advances to customers	6.7	3.6		-	-
Available-for-sale and Held-to-maturity financial asset	5.5	2.4		-	-
Total assets	**6.2**	**3.2**	**Total liabilities**	**2,7**	**1,6**

Assets	Average rate in 2004		Liabilities	Average Rate in 2004	
	SIT	Foreign currency		SIT	Foreign currency
Cash and balances with the Central Bank	1.0	-	Due to other banks	4.7	2.6
Due from other banks	4.2	2.1	Due to customers	3.1	1.0
Financial assets at fair value through profit or loss	7.6	3.7	Debt securities in issue	6.8	-
Loans and advances to customers	7.8	3.4			
Available-for-sale and Held to-maturity financial asset	7.1	1.5			
Total assets	**7.6**	**2.5**	**Total liabilities**	**3,5**	**1.4**

36. Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Central Bank. The table below provides an analysis of assets, liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'maturity undefined' category.

The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and balances with the Central Bank	17,991	-	-	-	-	-	17,991
Due from other banks	42,811	-	202	36,291	-	-	79,304
Financial assets at fair value through profit or loss	48,239	-	3	-	-	-	48,242
Loans and advances to customers	30,490	47,749	132,712	131,350	69,252		411,553
Available-for-sale securities	8,001	15,801	6,426	22,680	41,644	-	94,552
Held-to-maturity investments	20,504	20,918	12,225	23,933	42,390		119,970
Investments in associates and other investmensts	-	-	-	-	-	10,754	10,754
Unconsolidated investment in subsidiary	-	-	-	-	-	442	442
Intangible assets	-	940	103	454	3,243	-	4,740
Property and equipment	2	211	3,548	1,142	14,992	-	19,895
Accrued income, other assets and deferred tax assets	12,874	2,824	4,990	7,478	2,998	-	31,164
Total assets	**180,912**	**88,443**	**160,209**	**223,328**	**174,519**	**11,196**	**838,607**
Liabilities							
Due to other banks	3,200	1,343	297	619	-	-	5,459
Due to customers	340,671	132,681	62,253	17,875	1,452	-	554,932
Debt securities in issue	2,156	-	11,158	25,213	11,000	-	49,527
Other borrowed funds	441	3,411	12,108	92,186	10,685	-	118,831
Accruals, provisions,other liabilities and deferred tax liabilities	10,955	2,445	4,147	7,836	1,510	-	26,893
Subordinated liabilities	-	-	-	8,687	13,429		22,116
Total liabilities	**357,423**	**139,880**	**89,963**	**152,416**	**38,076**		**777,758**
Minority interest	-	-	-	-	-	1,938	1,938
Total Shareholders Funds	-	-	-	-	-	58,911	58,911
On-balance-sheet liquidity gap at 31 December 2005	**(176,511)**	**(51,437)**	**70,246**	**70,912**	**136,443**	**(49,653)**	**-**
Off-balance-sheet assests[1]	133,661	214,644	202,809	174,896	142,648	-	868,658
Off-balance-sheet liabilities[1]	133,661	214,644	202,809	174,896	142,648	-	868,658
Off-balance-sheet liquidity gap at 31 December 2005	-	-	-	-	-	-	-
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2005	**(176,511)**	**(51,437)**	**70,246**	**70,912**	**136,443**	**(49,653)**	**-**
Total assets at 31 December 2004	138,940	95,861	151,699	178,006	142,606	9,725	716,837
Total liabilities at 31 December 2004	331,995	123,770	72,773	100,853	30,894	1,010	661,295
Minority interest	-	-	-	-	-	1,911	1,911
Total Shareholders Funds	-	-	-	-	-	53,631	53,631
On-balance-sheet liquidity gap at 31 December 2004	**(193,055)**	**(27,909)**	**78,926**	**77,153**	**111,712**	**(46,827)**	**-**
Off-balance-sheet liquidity gap at 31 December 2004	-	-	-	-	-	-	-
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2004	**(193,055)**	**(27,909)**	**78,926**	**77,153**	**111,712**	**(46,827)**	**-**

[1]Off-balance-sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and receivables and payables under guarantees, letters of credit and committed facilities.

37. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. All trading positions are mark to market daily and most of them are managed by the system of limitation.

The Group also applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

The daily market value at risk measure (VAR) is an estimate, with a confidence level set at 95 %, of the potential loss which might arise if the current positions were to be held unchanged for one business day. The measurement is structured so that daily losses exceeding the VAR figure should occur, on average, not more than once every sixty days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

38. Concentration of assets and liabilities

	2005		2004	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Geographic region				
Slovenia	747,936	711,380	679,091	651,055
European Union	65,331	109,521	24,973	49,991
Former Yugoslavia	10,335	3,108	4,521	2,102
Others	15,005	14,598	8,252	13,689
Total	**838,607**	**838,607**	**716,837**	**716,837**

39. Related party transactions

a)
by Balance Sheet as of 31 December 2005

	Subsidiaries	**Associates**
Due from other banks	4,394	1,766
Loans and advances to customers	18,095	-
Securities available-for-sale and investments held-to-maturity	-	762
Investments in associates and subsidiares together	4,865	6,257
Due to other banks	28	-
Due to customers	1,170	1,355
Debt securities in issue	50	3,982

by Balance Sheet as of 31 December 2004

	Subsidiaries	Associates
Due from other banks	360	55
Loans and advances to customers	16,842	518
Securities available-for-sale and investments held-to-maturity	-	714
Investments in associates and subsidiares together	6,123	5,006
Due to other banks	14	-
Due to customers	452	1,005
Debt securities in issue	55	1,311

b)
by Income Statement as of 31 December 2005

	Subsidiaries	Associates
Net interest income	730	(128)
Dividend income	1,026	50
Net fee and commissions income	85	1,763
Net profit from financial operations	(8)	0
Costs of services	81	0

by Income Statement as of 31 December 2004

	Subsidiaries	Associates
Net interest income	538	39
Dividend income	1,532	74
Net fee and commissions income	83	52
Net profit from financial operations	64	2
Costs of services	77	51

KPMG

Report of the independent auditor to the shareholders of Nova Kreditna banka Maribor d.d., Maribor

We have audited the accompanying consolidated balance sheet of Nova Kreditna banka Maribor d.d., Maribor and its subsidiaries (Nova KBM Banking Group) as of 31 December 2004, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group'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 consolidated financial statements give a true and fair view of the financial position of the Nova KBM Banking Group as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

KPMG Slovenija, d.o.o.

Ljubljana, 15 April 2005

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED

in millions of SIT

	Notes	2004	2003
Interest income		38.130	42.004
Interest expense		(18,140)	(23,872)
Net interest income	3	**19,990**	**18,132**
Fee and commission income		9,881	7,450
Fee and commission expense		(2,084)	(611)
Net fee and commission income	4	**7,797**	**6,839**
Dividend income		307	289
Income from associates	5	1,104	974
Net trading income	6	2,621	2,471
Other operating income	7	3,869	7,179
Operating income		**35,688**	**35,884**
General administrative expenses	8	(19,832)	(18,203)
Depreciation and amortization	9	(3,227)	(2,647)
Other expenses		(1,208)	(3,973)
Operating expenses		**(24,267)**	**(24,823)**
Impairment losses	10	(5,080)	(3,996)
Income before tax		**6,341**	**7,065**
Income tax expense	11	(3,513)	(3,149)
Income after tax before minority interest		2,828	3,916
Minority interest		(137)	(227)
Net income for the period		**2,691**	**3,689**

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER

in millions of SIT

	Notes	2004	2003
Assets			
Cash and balances with the Central Bank	13	27,832	18,673
Due from other banks	14	51,241	13,870
Financial assets at fair value through profit or loss	15	4,548	1,296
Loans and advances to customers	16	351,686	265,485
Available for sale financial assets	17	82,863	85,245
Held to maturity investments	18	143,462	114,071
Investments in associates and other investments	19	9,287	8,058
Investments in subsidiaries	20	438	438
Intangible assets	21	4,273	3,403
Property and equipment	22	14,292	13,038
Accrued income, other assets and deferred tax assets	23	26,915	26,005
Total assets		**716,837**	**549,582**
Liabilities			
Due to other banks	24	8,521	11,006
Due to customers	25	517,019	408,483
Debt securities in issue	26	40,240	17,778
Other borrowed funds	27	52,642	37,394
Accruals, provisions, other liabilities and deferred tax liabilities	28	19,728	16,997
Subordinated liabilities	29	22,135	7,132
Total liabilities		**660,285**	**498,790**
Minority interest	31	1,911	805
Shareholders' equity			
Share capital	32	5,840	5,600
Retained profits		6,308	6,957
Reserves		42,493	37,430
Total shareholders' equity		**54,641**	**49,987**
Total liabilities and shareholders' equity		**716,837**	**549,582**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in millions of SIT

	Share capital	General banking reserve	Capital reserve	Statutory and legal reserve	Revaluation reserve	Retained profits	Total
Balance at 1 January 2003	**5,600**	**8,365**	**0**	**27,944**	**-**	**4,194**	**46,103**
Dividend for 2002	-	-	-	-	-	(1,096)	(1,096)
Profit for the year	-	-	-	-	-	3,689	3,689
Revaluation of available for sale financial instruments	-	-	-	-	1,294	-	1,294
Transfer to statutory and legal reserve	-		-	778	-	(778)	-
Transfer to general banking reserve	-	300	-	-	-	(300)	-
Transfer from general banking reserve	-	(1,251)	-	-	-	1,251	-
Other	-		-	-	-	(3)	(3)
Balance at 31 December 2003	**5,600**	**7,414**	**0**	**28,722**	**1,294**	**6,957**	**49,987**
Increase of share capital	240	-	1,567	-	-	-	1,807
Dividend for 2003	-	-	-	-	-	(1,715)	(1,715)
Revaluation of available for sale financial instruments	-	-	-	-	1,694	-	1,694
Profit for the year	-	-	-	-	-	2,691	2,691
Transfer to general banking reserve	-	60	-	-	-	(60)	-
Transfer to statutory/legal reserve	-	-	-	1,565	-	(1,565)	-
Other	-	177	-	-	-	-	177
Balance at 31 December 2004	**5,840**	**7,651**	**1,567**	**30,287**	**2,988**	**6,308**	**54,641**

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED

in millions of SIT

	2004	2003
Cash flows from/(used in) operating activities:		
Net income before tax	6,341	7,065
Investment in associates	(1,104)	(974)
Depreciation and amortization	3,227	2,647
Gain/loss on disposal of fixed assets	(72)	48
Dividend received	(307)	-
Impairment loss	5,080	3,996
Income tax expense	(3,513)	(3,149)
Income before working capital changes	**9,652**	**9,633**
Changes in assets and liabilities:		
Cash and balances with the Central Bank	(3,649)	1,102
Due from other banks	(29,184)	283
Financial assets at fair value through profit or loss	-	(3)
Loans and advances to customers	(90,437)	(39,074)
Available for sale financial assets	4,076	(6,210)
Held to maturity investments	(29,391)	481
Other assets, including tax assets	(1)	2,790
Due to other banks	(2,485)	(2,047)
Due to customers	108,536	22,552
Accruals, provisions and other liabilities	1,928	1,405
Subordinated liabilities	15,003	129
Net cash used in operating activities	**(15,952)**	**(8,959)**
Cash flows from / (used in) investing activities:		
Acquisition of fixed assets	(6,255)	(6,668)
Proceeds from sale of property and equipment	976	-
Investments in associates	(125)	(1,496)
Investments in subsidiaries	-	3
Dividends received from associates	307	289
Net cash flows used in investing activities	**(5,097)**	**(7,872)**
Cash flows from (used in) financing activities:		
Debt securities in issue	22,462	(9,825)
Issue of share capital	1,984	-
Other borrowed funds	15,248	11,891
Dividends paid	(1,715)	(1,056)
Net cash flows from financing activities	**37,979**	**1,010**
Increase (decrease) in cash	**16,930**	**(15,821)**
Cash and cash equivalents at beginning of year	**27,373**	**43,194**
Cash and cash equivalents at end of year	**44,303**	**27,373**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS NOVA KREDITNA BANKA MARIBOR D.D.

1. General Information and basis of presentation

Nova KBM d.d. is a Slovene universal commercial bank incorporated under the laws of Slovenia. The majority owner is the Republic of Slovenia, having 90.4 percent of the shares, 4.8 percent is owned by the Kapitalska družba d.d. (Capital Fund of the Republic of Slovenia) and another 4.8 percent by the Slovenska odškodninska družba d.d. (Compensation Fund of the Republic of Slovenia).

The registered office is at: Nova Kreditna banka Maribor d.d., Maribor, Ulica Vita Kraigherja 4.

The consolidated financial statements of the Bank for the year ended 31 December 2004 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The financial statements were authorised for issue by the Directors on 15 April 2005.

2. Summary of Significant Accounting Policies

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB Standing Interpretations Committee of the IASB.

(b) Basis of Preparation

The reporting currency used in financial statements is Slovene Tolars ("SIT") with rounding to the nearest to SIT million unless otherwise specified.

The financial statements are prepared under the historical cost basis, modified by the revaluation of; available for sale investment securities, financial assets at fair value through profit or loss and derivative financial instruments. The members of the Group follow uniform accounting policies for similar transactions

(c) Basis of Accounting

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognized when they occur and they are reported in financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a statement of income, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements.

The preparation of financial statements in conformity with IFRS requires management to make 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. These estimates are based on the information available as of the date of the consolidated financial statements and actual results could differ from those estimates.

(d) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are those companies controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. It means that the Bank holds more than 50% of ownership or the Bank's control over the management of the company is not limited or restricted. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

The following subsidiary companies are included in consolidated financial statements of the Nova KBM d.d. Group:

- KBM FINEKO d.o.o., in which the bank holds 100% ownership,
- KBM INFOND d.o.o., in which the bank holds 68% ownership,
- MBH d.o.o., in which the bank holds 100% ownership,
- KBM LEASING d.o.o., in which the bank holds 100% ownership,
- KBM INVEST d.o.o., in which the bank holds 99.37% ownership,
- FININVEST d.o.o., in which the Bank holds 100% ownership,
- GORICA LEASING d.o.o., in which the bank holds 100% ownership,
- POŠTNA BANKA SLOVENIJE d.d., in which the bank holds 55% ownership and
- M-PAY d.o.o., in which the bank holds 50% ownership.

(ii) *Associates*

Associated companies are those in which the Bank has between 20% and 50% of the ownership, over which the Bank exercises significant influence, but which it does not control. Investments in associated companies are accounted for using the equity method of accounting. Equity accounting involves recognizing in the profit and loss statement the Group's share of the associates' profit or loss for the period. The Group interest in the associate is carried in the balance sheet at an amount that reflects its share of net assets of the associate.

The following associated companies are included in consolidated financial statements of the Nova KBM d.d.Group based on equity method of investment valuation:

- ADRIA BANK d.d., in which the bank holds 25.04% ownership,
- ZAVAROVALNICA MARIBOR d.d., in which the bank holds 49.96% ownership,
- MOJA NALOŽBA d.o.o., in which the bank holds 45% ownership,
- CITY MARIBOR, in which the KBM Fineko d.o.o. holds 31.15% ownership.

(e) Introduction of amended IFRS

In 2004, the Group applied amended IAS 39 Financial Instruments: Recognition and Measurement, effective for annual periods beginning on or after 1 January 2005 (earlier application permitted – par.103-104). The first application of amended IAS 39 permits an entity to designate a previously recognised financial asset as a financial asset at fair value through profit or loss or available for sale financial assets (par. 105), which was the basis for reclassification of the Group's financial assets.

(f) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into SIT and reported in financial statements at the middle exchange rate declared by the Bank of Slovenia ("BOS") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Slovene Tolars in the underlying accounting system of the Group and are therefore reported in financial statements at the mid exchange rate of the Bank of Slovenia prevailing as of the date of the transaction. Gains and losses arising on monetary assets from movements in exchange rates are recognised in '*Net trading income*'.

(g) Financial instruments

In preparing accounting and financial statements for 2004 the Bank applied the amended IFRS 39. By applying this standard, the Bank reclassified the majority part of its Securities held for trading into the category, *'Securities-available for sale'*. Also, a portion of Investments held to maturity was reclassified into '*Securities-available for sale'*. For comparative reasons and in order to present accounting statements consistently the standard was applied retrospectively, as requested in IAS 39, par. 104.

(i) Classification

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets (equity and debt securities, treasury bills) acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices.

Interest earned on trading securities is reported as '*Interest income*' in the statement of income. Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line '*Prepayments, accrued income and other assets'* and in '*Dividend income'* in the Statement of income.

All purchases and sales of financial assets at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales') are recognised as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

Held to Maturity Investments

Held to Maturity Investments are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity. This portfolio comprises treasury bills and debt securities. Held to maturity investments are carried at amortized cost.

The Group assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Group recognizes provisions through the profit and loss statement line '*Impairment loss'.*

Available for Sale Financial assets

Available for sale financial assets are those securities that are not classified as Financial assets at fair value through profit or loss or Held to maturity investments. This portfolio comprises equity securities and debt securities.

Interest earned on securities available for sale is reported as 'Interest income' in the statement of income.

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line '*Prepayments, accrued income and other assets'* and in '*Dividend* *income*' in the statement of income. Upon payment of the dividend, the receivable is offset against the collected cash.

Available for sale financial assets are stated at fair value by applying the valuation technique that considers the scope and the depth of the market.

Unrealised gains and losses arising from changes on the fair value of securities classified as available for sale financial assets are recognised directly in equity, through the Statement of Changes in Equity. When such financial assets are subsequent derecognised, the difference between carrying amount and fair value, previously recognised in equity is transferred in the Statement of Income, in the line '*Net trading income'.*

Derivative financial instruments

In the normal course of business the Group engages as a party to contracts for derivative financial instruments which represent a very low initial investment compared to the notional value of the contract.

Derivative financial instruments are initially recognised in the balance sheet at cost value (including transaction costs) and are re-measured at their fair value.

Originated Loans and the Provisions for Loan Impairment

Loans originated by the Group by providing money directly to a borrower are categorised as loans originated by the Group and are carried at amortised cost. All loans and advances are recognised when funds are advanced to borrowers.

Loans are reported at their outstanding unpaid principal balances increased by any accrued interest and reduced by any commissions and provision for loan losses, net of any deferred fees or costs of loan origination. Impairment is made for any amounts for which, in the opinion of management, the recovery is uncertain, based on discounted cash flow approach of future receivables associated with the loan.

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. In the case of loans to borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made, and additional country risk impairment are established as necessary.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement if previously written off.

The Group must, within the framework of prescribed and internal criteria, classify balance sheet and off-balance-sheet asset items according to their level of risk and evaluate potential losses deriving from credit risks. Specific provisions for impairment losses that the Group establishes according to classification of claims in groups B, C, D and E are recorded as the value adjustments of claims on the assets side of the balance sheet. Provisions for potential losses that the Group establishes for claims in group A, are also recorded as the value adjustments of claims on the asset side of balance sheet.

(ii) Recognition

The Group recognises financial assets at fair value through profit or loss and available for sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised. Held-to-maturity loans and originated loans and receivables are recognised on the day they are transferred to the Group.

(iii) Measurement
Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all financial assets and liabilities at fair value through profit or loss and all available for sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value
The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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 an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains or losses on subsequent measurement
Gains and losses arising from a change in the fair value of available for sale assets are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of financial assets or liabilities at fair value through profit or loss are recognised in the income statement.

(h) Intangible Assets

Intangible assets encompass investments in computer software, licences and capitalized costs in assets owned by others. They are amortized using the straight-line method at the rate of 20% or based on the contractual applicability of a specific licence.

Intangible assets in preparation are not amortized until they are ready for use.

An adjustment owing to impairment is made at the end of the year, if the book value of the intangible asset exceeds its recoverable value.

The Group does not record increases in the book value of intangible assets.

(i) Property and Equipment

Property and equipment are stated at cost value together with the annual revaluation, less accumulated depreciation and any impairment losses.

A revaluation owing to impairment is made at the end of the year, if the book value of the asset exceeds its recoverable value.

The Group periodically tests its property and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of assets are determined by reference to their carrying amount and are taken into account in determining operating income. Repairs and renewals are charged to the income statement when the expenditure is incurred. Reversals of impairment losses are recognized as income immediately in the income statement due to changes in the estimates used to determine the recoverable amount since the last impairment loss was recognized.

The Group does not record increases in the book value of its property and equipment.
Profit or loss from the sale of property and equipment is established with regard to their book value and is recorded as operating revenue or expense. The costs of repairs and maintenance are charged to the profit and loss statement when incurred. The costs of increase the value of the property and equipment are capitalized.

Depreciation is calculated on the straight-line method at determined rates designed to write off the cost or valuation of property and equipment over their estimated useful lives. The following are annual rates used:

	2004	2003
	(in %)	(in %)
Buildings	5.0	5.0
Furniture	6.7 - 25.0	6.7 - 25.0
Computers	50.0	50.0
Motor vehicles	25.0	25.0
Finance leases	33.3	33.3

(j) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classifies as operating leases.

The Group as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group’s net investment in the lease. Finance lease income in allocated to accounting periods so as to reflect a constant rate of return on the Group’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessee
Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the Consolidated Balance Sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charge to

the Consolidated Statement of Income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the Consolidated Statement of Income on a straight-line basis over the terms of the relevant lease.

(k) Provisions and impairment losses

The Group recognizes a provision when:
- It has 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.

(l) Provisions for Charges and for Guarantees and Other Off-Balance Sheet Credit Related Commitments

In the normal course of business, the Group enters into credit related commitments, which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and unused loan commitments. Specific provisions are made for estimated losses on these commitments on the same basis as set out in note (o).

Provisions for off-balance sheet exposures are recorded in other provisions disclosed within the balance sheet category “Other liabilities”.

(m) Provisions for General Banking Reserve and Other General Provisions

The Group set aside general provision for risks that are judged by the Management of the Bank to be present at the balance sheet date, but which have not been allocated to specific or individual exposures.

Provisions for general banking risks and the movement thereon are recorded within equity in accordance with IAS 30.

(n) Debt Securities in Issue

Debt securities issued by the Group are stated at amortised cost using the effective interest rate method. Interest expense arising on the issue of debt securities is included in the statement of income line item ‘*Interest expense.’*

In the event of the repurchase of its own debt securities the Group de-recognises these debts so as to reflect the economic substance of the transaction as a repayment of the Group’s commitment and decrease its liabilities in the balance sheet line ‘*Debt securities in issue* ’. Gains and losses arising as a result of the repurchase of the Group’s own debt securities are included in ‘*Net trading income’* or in ‘*Net interest income.*’ The Group reports the repurchased debt securities as assets only if there exists a contractual commitment to resell the securities in the future.

(o) Interest and Discount Income and Expense

Interest is calculated in accordance with Slovenian law and agreements between the Group and Group 's clients. Interest is added to the principal if this is stipulated in the agreement.

Interest and discount income and expense are recognized in the financial statements using the effective yield method in accordance with the accrual basis.

The recognition of interest ceases when the payment of interest is in doubt. Interest is included in income thereafter only for performing loans. The income from doubtful claims is included in the statement of income only when received.

(p) Fees and Commission Income and Expense

Fees and commission income and expense consist of commissions on domestic and foreign payment traffic, fees arising from guarantees and loans given by the Group and from other services. Fees and commission income and expense is recognized in the statement of income under the same convention as interest income and expense.

Commission income arising from loans with the maturity over one year, are included in the Statement of Income in proportional part for the financial year.

(q) Taxation

Current tax expense is determined in accordance with the provisions of the relevant legislation of the Republic of Slovenia. In accordance with such legislation, banks calculate tax on profit as 25% of taxable profits and tax on the balance sheet sum, calculated as 3.0% of defined balance sheet volume. With a stipulation that the total tax expense to the Bank cannot exceed 50% of the income before taxation calculated in accordance with Slovene Accounting Standards.

Deferred taxation is provided using the balance sheet liability method for all temporary differences arising between the tax bases of assets or liabilities and their carrying amount for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

(r) Sale and Repurchase Agreements

Securities sold under sale and repurchase agreements (‘repos’) are recorded as assets in the balance sheet lines ‘*Financial asset at fair value through profit or loss*’ and ‘*Available-for-sale financial asset*’ and the counterpart liability is included in ‘*Due to banks*’ or ‘*Due to customers*’ as appropriate. Securities purchased under agreements to purchase and resell (‘reverse repos’) are recorded as assets in the balance sheet line ‘*Due from banks*’ or ‘*Loans and advances to customers*’ as appropriate, with the corresponding decrease in cash being included in ‘*Cash and balances with the Central Bank*.’ The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

(s) Segmental Reporting

Condensed financial statements of subsidiaries, representing segments of business, other than banking, are not presented due to their immateriality to the consolidated financial statements as a whole. The Group has no significant operations outside of Slovenia.

(t) Regulatory requirements

The Group is subject to the regulatory requirements of the Central Bank of Slovenia. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk, liquidity, interest rate and foreign currency position.

(u) Comparatives

Where appropriate, certain comparative figures have been reclassified to conform to the current presentation.
The opening adjustments in note 14, 16, 23 and 28 primarily represent the reclassification between provisions (treated as a liability in the audited 2003 financial statements) and impairment and consolidation differences.

(v) Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and advances: Fair value is calculated based discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. Quoted market prices for instruments backed by similar loans, adjusted for different loan characteristics, are also used in estimating fair value. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments carried at cost and derivatives: Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques. 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 for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

Bank and customer deposits: For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long term relationships with depositors is not taken into account in estimating fair values.

Long-term debt: The fair value is based on quoted market prices, if available. For debt instruments without quoted prices the fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Group for new debt of similar type and remaining maturity.

3. Net interest income

	2004	2003
Interest income		
- Cash and balances with the Central Bank	353	127
- Loans to banks	538	308
- Loans and advances to customers	23,911	24,123
- Securities	12,273	13,494
- Other	1,055	3,952
Total interest income	**38,130**	**42,004**
Interest expense		
- Balances with the Central Bank	9	3
- Bank deposits	685	1,236
- Customer deposits	13,097	15,876
- Debt securities	2,738	3,203
- Other borrowed funds	1,450	877
- Other	161	2,677
Total interest expense	**18,140**	**23,872**
Net interest income	**19,990**	**18,132**

4. Net fee and commission income

	2004	2003
Fee and commission income		
- Guarantees given by the Group	590	533
- Domestic payment traffic	3,200	2,124
- Foreign payment traffic	1,013	934
- Intermediary and commission services	27	34
- Securities services	168	181
- Commission from loans	891	1,160
- Administrative services	3,941	2,435
- Depot and vault	5	5
- Other services	46	44
Total fee and commission income	**9,881**	**7,450**
Fee and commission expense		
- Domestic banking services	1,290	233
- Foreign payment traffic	313	218
- Foreign exchange services	109	-
- Stock exchange services	49	31
- Domestic payment traffic	109	70
- Other services	214	59
Total fee and commission expense	**2,084**	**611**
Net fee and commission income	**7,797**	**6,839**

5. Income from associates

	2004	2003
Zavarovalnica Maribor	1,077	860
Adria Bank	57	152
Moja naložba	(32)	(43)
City Maribor	2	5
Total	**1,104**	**974**

6. Net trading income

	2004	2003
Net realised gains on foreign exchange	1,183	1,507
Net realised gains on derivative financial instruments	50	24
Net unrealised gains/(losses) on derivative financial instruments	184	(218)
Net realised gains on financial assets at fair value through profit or loss	786	946
Net unrealised gains on financial assets at fair value through profit or loss	418	212
Net trading income/expenses	**2,621**	**2,471**

7. Other operating income

	2004	2003
Income from non-banking services	3,711	7,133
Proceeds from sale of property and equipment	134	-
Other operating income	24	46
Other operating income	**3,869**	**7,179**

Other operating income of the Group comprise income from renting business facilities, POS terminals, recreation facilities, apartments and other income.

8. General administrative expenses

	2004	2003
Employee costs		
- salaries	8,517	7,160
- social security costs	1,321	1,097
- other employee costs	1,739	1,384
Material costs	870	1,626
Service costs		
- operating lease	681	558
- professional services	285	330
- maintenance	1,678	1,414
- advertising and promotion	916	851
- insurance costs	116	127
- educational costs	129	99
- other	3,580	3,557
Total general administrative costs	**19,832**	**18,203**
Salaries of the Management Board	319	250

The average number of employees during 2004 was 1,859 (2003: 1,639).

9. Depreciation and amortization

	2004	2003
Depreciation of property and equipment	2,232	1,909
Amortization of intangible assets	995	738
Total depreciation and amortization	**3,227**	**2,647**

10. Impairment losses

	2004	2003
Write-down		
Balance sheet items		
Due from Banks	48	(6)
Loans and advances to customers	5,069	3,177
Other assets	643	437
Off balance sheet items	(641)	489
Reversal		
Balance sheet items		
Loans and advances to customers	(39)	(101)
Total provision for losses	**5,080**	**3,996**

11. Income tax expense

	2004	2003
Tax on profit	1,801	2,328
Balance sheet tax	1,712	821
Total	**3,513**	**3,149**

Income before tax	**6,341**	**7,065**
Prima facie tax calculated at a tax rate of 25% (2003:25%)	1,587	1,766
Expenses not deductible for tax purposes	1,728	953
Deferred tax expense	198	430
Tax expense	**3,513**	**3,149**

12. Deferred income taxes

	2004
Deferred tax assets	**110**
- from derivative financial instruments	(53)
- from provisions	163
Deferred tax liabilities	**308**
- from financial assets at fair value through profit or loss	105
- from derivative financial instruments	(7)
- from rated credit client's (per Bank of Slovenia regulation)	210
Net deferred tax liabilities	**(198)**

13. Cash and balances with the central bank

	2004	2003
Cash on hand	7,179	4,460
Balances with the Bank of Slovenia	20,653	14,213
Total cash and balances with the Central Bank	**27,832**	**18,673**

The Group was required to maintain an obligatory reserve with the Bank of Slovenia, relative to the volume and structure of its customers' deposits. Balances with the Bank of Slovenia included obligatory reserve deposits of SIT 9,567 million (2003: SIT 5,918 million). These funds are not available to finance the Group's day to day operations.

14. Due from other banks

	2004	2003
Placements with other banks	31,616	13,435
Loans and advances to other banks	19,878	491
Total	**51,494**	**13,926**
Less impairment	(253)	(56)
Total net of impairment	**51,241**	**13,870**

Movements in impairment were as follows:

Balance at 1 January	**56**	**62**
Opening adjustment	216	**-**
Increase in impairment (Note 10)	61	**2**
Decrease in impairment (Note 10)	80	**8**
Balance at 31 December	**253**	**253**

15. Financial assets at fair value through profit or loss

	2004	2003
Shares and participation certificates	**1,641**	**870**
Debt securities	**2,907**	**426**
Fixed income debt securities		
- Bonds	2,443	207
- Certificate of deposits	50	-
- Treasury bills	414	219
Total financial asset at fair value	**4,548**	**1,296**

Shares and participation certificates at fair value through profit or loss comprise:

	2004	2003
Shares and participation certificates in Slovene Tolars		
- listed	912	767
- unlisted	621	103
Shares and participation certificates in Other Currencies		
- listed	108	-
Total shares and participation certificates at fair value	**1,641**	**870**

Shares and participation certificates at fair value through profit or loss, allocated by issuer comprise:

	2004	2003
- Domestic financial institutions	316	237
- Foreign non-financial institutions	21	633
- Other domestic entities	1,199	-
- Foreign financial institutions	105	-
Total shares and participation certificates at fair value	**1,641**	**870**

Debt securities at fair value through profit or loss comprise:

	2004	2003
Fixed income debt securities		
- Slovene Tolars	2,906	333
- Other currencies	1	93
Total debt securities at fair value	**2,907**	**426**

Debt securities at fair value through profit or loss, allocated by issuer, comprise:

	2004	2003
Debt securities at fair value through profit or loss issued by:		
- Domestic financial institutions	245	426
- Domestic state institutions	2,343	
- Other domestic entities	319	
Total debt securities at fair value	**2,907**	**426**

16. Loans and advances to customers

	2004	2003
Overdrafts	14,383	11,512
Credit cards	490	99
Short term loans		
- Slovene Tolars	142,211	110,450
- Other currencies	66,629	40,610
Long term loans		
- Slovene Tolars	113,003	89,612
- Other currencies	46,611	38,207
Claims from granted guarantees	1,095	790
Gross loans and advances	**384,422**	**291,280**
Impairment	(32,736)	(25,795)
Net loans and advances	**351,686**	**265,485**

Movements in impairment were as follows

	2004	2003
Balance at 1 January	**25,795**	**22,760**
Opening adjustment	2,705	-
Doubtful debts	19,461	14,818
Recoveries and releases	(15,225)	(11,783)
Balance at 31 December	**32,736**	**25,795**

Loan portfolio by sectors was as follows

	2004		2003	
Non-financial corporations	232,868	60.6	176,489	60.6
General government	7,560	2.0	8,129	2.8
Financial institutions	12,502	3.2	9,005	3.1
Citizens	123,892	32.2	94,498	32.4
Non-residents	6,937	1.8	2,880	1.0
Non-profit institutions serving households	663	0.2	279	0.1
Gross loans and advances	**384,422**	**100.00**	**291,280**	**100.00**
Impairment	(32,736)		(25,795)	
Net loans and advances	**351,686**		**265,485**	

Loans guaranteed by the Republic of Slovenia or Slovenian banks

	2004	2003
Republic of Slovenia guarantees	15,378	10,920
Slovenian bank's guarantees	307	83
Total	**15,685**	**11,003**

17. Available for sale financial assets

	2004	2003
Bonds		
- Fixed yield	10,519	17,119
- Variable yield	49,998	32,806
Treasury bills with fixed yield	12,410	25,188
Other bills with fixed yield	2,798	2,474
Shares	6,716	6,870
Certificate of deposit with fixed yield	317	683
Other	105	105
Total available for sale financial assets	**82,863**	**85,245**

Available for sale financial assets by currency comprise:

	2004	2003
Bonds		
- Slovene Tolars	41,119	32,508
- Other currencies	19,398	17,417
Treasury bills in Slovene Tolars	12,410	25,188
Other bills in Slovene Tolars	2,798	2,474
Shares issued in Slovene Tolars	6,716	6,870
Certificate of deposit with fixed yield in Slovene Tolars	317	683
Other	105	105
Total available for sale debt financial assets	**82,863**	**85,245**

Available for sale debt financial assets allocated by issuer, comprise:

	2004	2003
- Domestic state institutions	50,729	43,764
- Bank of Slovenia	12,410	25,188
- Domestic financial institutions	4,726	5,999
- Other domestic entities	4,230	3,133
- Foreign institutions	10,768	7,161
Total available for sale debt financial assets	**82,863**	**85,245**

18. Held to maturity investments

	2004	2003
Bonds		
- Fixed yield bonds	35,257	21,939
- Variable yield bonds	27,208	21,870
Treasury bills		
- Fixed yield treasury bills	80,702	70,262
Other eligible bills		
- Fixed yield other eligible bills	295	-
Total held to maturity investments	**143,462**	**114,071**

Held to maturity debt investments comprise:

	2004	2003
Variable yield debt securities		
- Slovene Tolars	27,062	21,726
- Other currencies	146	144
Fixed income debt securities		
- Slovene Tolars	60,252	21,939
- Other currencies	56,002	70,262
Total held to maturity debt investments	**143,462**	**114,071**

Held to maturity investments, allocated by issuer, comprise:

	2004	2003
- State institutions in the Republic of Slovenia	61,454	43,665
- Bank of Slovenia	80,702	70,262
- Domestic financial institutions	336	-
- Other domestic non-financial institutions	824	-
- Financial foreign institutions	146	144
Total held to maturity debt investments	**143,462**	**114,071**

19. Investments in associates and other investments

Investments in associated companies and other investments comprise:

	2004	2003
Shares in associated companies	4,929	3,854
Other investments	4,358	4,204
Total investments in associates and other investments	**9,287**	**8,058**

Associated companies	Group's ownership interest and voting power in %	Cost of investment 2004	Net book value 2004	Cost of investment 2003	Net book value 2003
Zavarovalnica Maribor	49.96	13,413	2,972	9,683	1,896
Moja naložba	45.00	377	161	401	171
Adria Bank	25.04	7,080	1,768	7,040	1,762
City Maribor	31.15	89	28	80	25
Total associated companies		**20,959**	**4,929**	**17,204**	**3,854**

Companies with minority interest	Group's ownership interest and voting power in %	Net book value 2004	Net book value 2003
Banka Celje d.d.	0.09	11	11
Banka Vipa d.d.	0.05	7	7
Zveza hran. kred. služb d.d. LJ	0.01	-	-
Hranilnica LON d.d.	0.89	2	2
LHB Frankfurt	2.40	306	304
FMR d.o.o. Idrija	3.40	70	70
ISKRA Avtoelektrika d.d. Šempeter	1.50	121	121
IEDC Poslovna šola Bled d.o.o.	6.83	25	25
BANKART d.o.o. Ljubljana	14.01	90	83
Perutnina Ptuj d.d.	0.84	118	118
Marles Holding d.d. Maribor	11.56	265	265
TAM Maribor d.d.	1.18	-	-
TVI Majšperk d.o.o.	19.90	-	-
Zavarovalnica TRIGLAV d.d. LJ.	0.06	15	15
KDD Centralna klirinško dep.dr. d.d.	4.57	21	21
Pozavarovalnica SAVA d.d. Ljubljana	0.00	7	7
Slovenska izvozna družba d.d. Ljubljana	0.07	10	10
SWIFT La Hulpe Belgija	0.02	10	10
Vino Brežice d.d.	4.17	27	-
Medicinsko rehabilitacijski center d.o.o.	8.95	2	-
INFOND ID d.d. Maribor	8.91	1,084	1,084
INFOND PID d.d. Maribor	9.04	-	599
INFOND ID 1 d.d. Maribor	9.10	533	-
INFOND HOLDING d.d. Maribor	8.93	1,404	1,425
INFOND HOLDING 1 d.d. Maribor	9.05	198	-
Ljubljanska borza d.d. Ljubljana	4.60	25	25
City MB d.o.o.	6.53	5	-
MEBLO PTRC	0.17	1	1
TTRC KOBARID	10.00	1	1
Total companies with minority interest		**4,358**	**4,204**

20. Investments in subsidiaries

		2004	2003
	Country of incorporation	Net book value	Net book value
Hotel Slavija	Slovenia	438	438
Total		**438**	**438**

Company Hotel Slavija d.d., 98.99 (2003: 98,99%) owned by Nova KBM d.d., is not consolidated due to immateriality.

21. Intangible assets

	Software licences	Capitalised costs of investments in foreign tangible assets	Goodwill	Construction in progress	Other tangible assets	Total
Cost or valuation						
At 1 January 2004	**3,779**	**565**	**54**	**896**	**1**	**5,295**
Additions	808	114	-	1,294	234	**2,450**
Transfers from implementation	1,066	15	-	(1,081)	-	**-**
Disposals	(58)	(22)	-	(7)	(5)	**(92)**
31 December 2004	**5,595**	**672**	**54**	**1,102**	**230**	**7,653**
Accumulated amortisation						
At 1 January 2004	**1,468**	**402**	**22**	**-**	**-**	**1,892**
Additions	497	-	-	-	56	**553**
Charge for the year	919	65	11	-	-	**995**
Disposals	(58)	(2)	-	-	-	**(60)**
31 December 2004	**2,826**	**465**	**33**	**-**	**56**	**3,380**
Net book value 31 December 2004	**2,769**	**207**	**21**	**1,102**	**174**	**4,273**
Net book value 31 December 2003	**2,311**	**163**	**32**	**896**	**1**	**3,403**

None of the Group 's intangible assets are pledged as collateral.

22. Property and equipment

	Land and Buildings	Computers	Other Assets	Construction in progress	Total
Cost or valuation					
At 1 January 2004	13,365	8,419	6,014	277	**28,075**
Transfers	(22)	4	18	-	**-**
Additions	1,481	1,135	1,045	1,859	**5,520**
Transfers from implementation	148	565	269	(827)	**155**
Disposals	(53)	(852)	(658)	-	**(1,563)**
31 December 2004	**14,919**	**9,271**	**6,688**	**1,309**	**32,187**
Accumulated depreciation					
At 1 January 2004	**4,153**	**7,598**	**3,885**	**-**	**15,636**
Transfers	0	1	(1)	-	**-**
Additions	176	773	365	-	**1,314**
Charge for the year	703	943	586	-	**2,232**
Disposals	(8)	(850)	(429)	-	**(1,287)**
31 December 2004	**5,024**	**8,465**	**4,406**	**-**	**17,895**
Net book value 31 December 2004	**9,895**	**806**	**2,282**	**1,309**	**14,292**
Net book value 31 December 2003	**9,212**	**821**	**2,129**	**277**	**12,439**

None of the Group 's property and equipment are pledged as collateral.

23. Accrued income, other assets and deferred tax assets

	2004	2003
Accrued interest	3,124	3,228
Accrued costs and prepayments	72	112
Interest receivables	2,211	1,181
Fees and commissions	368	177
Advance payments	679	271
Cheques	34	38
Inventory	3,200	4,345
Items in course of payment	13,767	13,362
Items in course of collection	197	261
Positive fair value of derivative financial instruments	24	24
Deferred tax assets	390	252
Other, of which:	5,739	4,378
- account receivables	2,599	2,674
- other receivables	3,076	1,634
- other	64	70
Total	**29,805**	**27,629**
Impairment	(2,890)	(1,624)
Total	**26,915**	**26,005**

Deferred tax assets

	2004
Deferred tax assets	**390**
- from available for sale financial assets	215
- from derivatives	12
- from accrued fee	163

Movements in impairment	**2004**	**2003**
Balance at 31 December 2003	**1,624**	**1,163**
Opening adjustment	1,274	-
Increase in impairment	1,136	825
Decrease in impairment	(1,144)	(364)
Balance at 31 December 2004	**2,890**	**1,624**

24. Due to other banks

	2004	**2003**
On demand		
- Slovene Tolars	7	13
- Other currencies	413	545
Time deposits		
- Slovene Tolars	7,924	8,725
- Other currencies	177	1,723
Total	**8,521**	**11,006**

25. Due to customers

Amounts owed to customers, by type of customer

	2004		**2003**	
	Sight	Term	Sight	Term
Non-financial corporations	24,989	50,870	22,129	46,363
General government	3,310	11,892	3,599	12,621
Other financial institutions	450	27,377	244	21,336
Citizens	179,221	208,611	120,336	172,220
Non-residents	2,589	3,324	2,274	3,760
Non-profit institutions serving households	2,752	1,634	2,290	1,311
	213,311	**303,708**	**150,872**	**257,611**
Total	**517,019**		**408,483**	

26. Debt securities in issue

	2004	2003
Certificates of deposits	4,820	11,091
Bonds	35,420	6,687
Total	**40,240**	**17,778**

27. Other borrowed funds

	2004	2003
Banks		
- Slovene Tolars	1,094	1
- Other currencies	40,158	30,084
Other customers		
- Slovene Tolars	5,840	2,522
- Other currencies	5,550	4,787
Total	**52,642**	**37,394**

28. Accruals, provisions, other liabilities and deferred tax liabilities

	2004	2003
Creditors	1,198	1,074
Current taxes	1,387	1,347
Accrued interest	2,499	2,408
Liabilities to employees	536	333
Assets in course of payment	1	73
Payments received in advance	265	210
Other provisions	4,583	3,902
Deferred income	75	85
Cash in transit	727	495
Deferred tax liabilities	1,582	682
Derivative financial instruments	48	-
Other, of which	6,827	6,388
- liabilities from interest	914	1,112
- liabilities from fee - accrued	660	4
- other liabilities	5,253	5,272
Total	**19,728**	**16,997**

Other includes liabilities due to payment of money, the postal orders in the national payment system, deferred income deriving from liabilities repurchased by the Group.

Deferred tax liabilities

	2004
Deferred tax liabilities	**1,582**
- from available for sale financial assets	1,21
- from derivatives	3
- from financial assets at fair value through profit or loss	158
- from rated credit client's	210

Other provisions

	Off balance sheet exposures	Other	Total
Balance at 01 January 2003	**3,370**	**870**	**4,240**
Change of provision	234	(572)	(338)
Balance at 01 January 2004	**4,649**	**298**	**4,947**
Opening adjustment	1,045	-	1,045
Change of provision	(519)	155	(364)
Balance at 31 December 2004	**4,130**	**453**	**4,583**

29. Subordinated liabilities

	Due	Currency	Interest rate	2004	2003
1. Subordinated notes	2009	EUR	6M EURIBOR+1.7%	7.192	7.101
2. Subordinated loans				6	31
				450	-
3.Subordinated securities	2011	EUR	3M EURIBOR + 1.1%	11,987	-
		SIT	TOM + 6.0%	1,500	-
		SIT	TOM + 4.7%	1,000	-
Total				**22,135**	**7,132**

30. Commitments and contingent liabilities

a) Financial commitments and contingencies

	2004	2003
Guarantees and standby letters of credit in Slovene Tolars		
- Short-term	13,929	11,368
- Long-term	19,042	20,926
Guarantees and standby letters of credit in other currencies		
- Short-term	4,508	1,559
- Long-term	5,413	7,846
Foreign exchange documentary letters of credit		
- Short-term	1,575	1,234
- Long-term	17	378
Documentary letters of credit in Slovene Tolars		
- Short-term	-	24
- Long-term	-	3
Contingencies		
- Short-term	81,097	74,070
Financial derivative instruments	56	135
Total	**125,637**	**117,543**

b) Notional amount of derivative financial instruments

	2004		
	in tolars	in foreign currency	**Total**
Forward contracts for hedging	14	907	**921**
Forward contracts for trading	1,130	-	**1,130**
FX Swaps	34,292	13,905	**48,197**
TOTAL	**35,436**	**14,812**	**50,248**

31. Minority interest

	2004	2003
Balance at 1 January	**805**	**583**
Increase	1,106	222
Decrease	-	-
Balance at 31 December	**1,911**	**805**

32. Share capital

The total authorised number of ordinary shares at year-end 31 December 2004 was 2,919,748 shares (2003: 2,800,000 shares) with a par value of SIT 2,000 (2003: 2,000). The total issued and fully paid share capital is SIT 5,839,496 (2003: SIT 5,600,000). There was no share premium on issue. The Group does not hold treasury shares. The distribution of ordinary shares was as follows:

	2004	2003
Government of the Republic of Slovenia	2,639,748 shares	2,520,000 shares
Compensation Fund of the Republic of Slovenia	140,000 shares	140,000 shares
Capital Fund of the Republic of Slovenia	140,000 shares	140,000 shares

33. Dividends per share

Dividends payable are not accounted for until they have been approved at the Annual General Meeting. At the Bank's Annual General Meeting in July 2004, a dividend of SIT 1,667 million (2003: SIT 1,056 million) was declared and paid during 2004. No accrual has been made in respect of the dividend for the year ended 31 December 2004.

In accordance with the decision made at the 9th Assembly of Nova KBM of 7 July 2004, the Group paid dividends to shareholders for the year 2003 in the gross amount of SIT 595,36 per share.

34. Foreign exchange position

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Group monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Bank of

Slovenia established in respect of limits on open positions. The Group seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

	EUR	USD	Other	SIT	Total
Assets					
Cash and balances with the Central Bank	1,413	158	205	26,056	27,832
Due from other banks	11,058	1,817	4,786	33,580	51,241
Financial assets at fair value through profit or loss	-	1	-	4,547	4,548
Loans and advances to customers	102,497	5,895	84	243,210	351,686
Available for sale financial assets	19,804	206	-	62,853	82,863
Investments held to maturity	47,787	8,535	-	87,140	143,462
Investments in associates and other investments	2,084	-	-	7,203	9,287
Investments in subsidiaries	-	-	-	438	438
Intangible assets	-	-	-	4,273	4,273
Property and equipment	-	-	-	14,292	14,292
Accrued income, other assets and deferred tax assets	1,402	282	39	25,192	26,915
Total assets	**186,045**	**16,894**	**5,114**	**508,784**	**716,837**
Liabilities					
Due to other banks	336	36	27	8,122	8,521
Due to customers	125,738	14,170	4,957	372,154	517,019
Debt securities in issue	-	-	-	40,240	40,240
Other borrowed funds	42,301	2,442	485	7,414	52,642
Accruals, provisions,other liabilities and deferred tax liabilities	771	56	47	18,854	19,728
Subordinated liabilities	19,179	-	-	2,956	22,135
Total liabilities	**188,325**	**16,704**	**5,516**	**449,740**	**660,285**
Minority interest	-	-	-	1,911	1,911
Total shareholders' equity	-	-	-	54,641	54,641
Net FX Position at 31 December 2004	**(2,280)**	**190**	**(402)**	**2,492**	**-**
Off-balance-sheet assets[1]	19,221	587	-	270	20,078
Off-balance-sheet liabilities[1]	536	587	-	20,304	21,427
Net off-balance-sheet FX position at 31 December 2004	**18,685**	**-**	**-**	**(20,034)**	**(1,349)**
TOTAL NET FX POSITION AT 31 DECEMBER 2004	**16,405**	**190**	**(402)**	**(17,542)**	**-**
Total assets at 31 December 2003	156,582	19,261	4,244	369,495	549,582
Total liabilities at 31 December 2003	152,934	19,689	5,509	320,658	498,790
Minority interest	-	-	-	805	805
Total shareholders' equity	-	-	-	49,987	49,987
Net FX position at 31 December 2003	**3,648**	**(428)**	**(1,265)**	**(1,955)**	**-**
Net off-balance-sheet FX position at 31 December 2003	**32,079**	**-**	**-**	**(35,307)**	**(3,228)**
TOTAL NET FX POSITION AT 31 DECEMBER 2003	**35,727**	**(428)**	**(1,265)**	**(37,262)**	**(3,228)**

[1]Off-balance-sheet assets and liabilities include amounts receivable and payable arising from spot and forward transactions

35. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Group to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'maturity undefined' category.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and balances with the Central Bank	20,760	-	-	-	-	7,072	27,832
Due from other banks	36,571	100	-	11,680	-	2,890	51,241
Financial assets at fair value through profit or loss	-	-	-	-	-	4,548	4,548
Loans and advances to customers	283,603	17,326	38,267	9,264	3,178	48	351,686
Available-for-sale securities	49,718	6,787	4,046	14,112	5,247	2,953	82,863
Held to maturity investments	67,781	41,873	17,749	4,723	11,336	-	143,462
Investments in associates and other investments	-	-	-	-	-	9,287	9,287
Investments in subsidiaries	-	-	-	-	-	438	438
Intangible assets	-	-	-	-	-	4,273	4,273
Property and equipment	-	-	-	-	-	14,292	14,292
Accrued income, other assets and deferred tax assets	5,835	616	1,424	4,481	1,691	12,868	26,915
Total assets	**464,268**	**66,702**	**61,486**	**44,260**	**21,452**	**58,669**	**716,837**
Liabilities							
Due to other banks	6,758	1,282	20	177	-	284	8,521
Due to customers	416,853	57,174	36,067	5,921	505	499	517,019
Debt securities in issue	29,638	-	-	6,711	3,891	-	40,240
Other borrowed funds	49,030	205	1,719	1,027	403	258	52,642
Accruals, provisions,other liabilities and deferred tax liabilities	607	96	194	1,783	4	17,044	19,728
Subordinated liabilities	19,635	-	-	1,500	1,000	-	22,135
Total liabilities	**522,521**	**58,757**	**38,000**	**17,119**	**5,803**	**17,085**	**660,285**
Minority interest	-	-	-	-	-	1,911	1,911
Total shareholders' Funds	-	-	-	-		54,641	54,641
On-balance-sheet interest rate sensitivity gap at 31 December 2004	**(58,253)**	**7,945**	**23,486**	**27,141**	**15,649**	**(14,968)**	**-**
Off-balance-sheet interest rate assets	-	-	-	-	-	700,611	700,611
Off-balance-sheet interest rate liabilities	-	-	-	-	-	700,611	700,611
Off-balance-sheet interest rate sensitivity gap at 31 December 2004	-	-	-	-	-	-	-
TOTAL INTEREST RATE SENSITIVITY GAP AT 31 DECEMBER 2004	**(58,253)**	**7,945**	**23,486**	**27,141**	**15,649**	**(14,968)**	**-**

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total

Total assets at 31 December 2003	339,837	44,976	75,491	15,438	14,917	58,923	549,582
Total liabilities at 31 December 2003	391,887	55,761	29,596	4,948	88	16,510	498,790
Minority interest	-	-	-	-	-	805	805
Total Shareholders' Funds						49,987	49,987
On-balance-sheet interest rate sensitivity gap at 31 December 2003	**(52,050)**	**(10,785)**	**45,895**	**10,490**	**14,829**	**(8,379)**	**-**
Off-balance-sheet interest rate sensitivity gap at 31 December 2003	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL INTEREST RATE SENSITIVITY GAP AT 31 DECEMBER 2003	**(52,050)**	**(10,785)**	**45,895**	**10,490**	**14,829**	**41,608**	**-**

Average interest rates as of 31 December 2004 and 2003

The average interest rates for December 2004 and 2003 calculated as a weighted average for each asset and liability category.

Assets	Average rate in 2004		Liabilities	Average Rate in 2004	
	SIT	Foreign currency		SIT	Foreign currency
Cash and balances with the Central Bank	1.0	-	Due to other banks	4.7	2.6
Due from other banks	4.2	2.1	Due to customers	3.1	1.0
Financial asset at fair value through profit or loss	7.6	3.7	Debt securities in issue	6.8	-
Loans and advances to customers	7.8	3.4			
Available-for-sale financial asset, Held to maturity Investment	7.1	1.5			
Total assets	**7.6**	**2.5**	**Total liabilities**	**3.5**	**1.4**

Assets	Average rate in 2003		Liabilities	Average Rate in 2003	
	SIT	Foreign currency		SIT	Foreign currency
Cash and balances with the Central Bank	1.0	-	Due to other banks	7.7	2.7
Due from other banks	6.8	1.7	Due to customers	5.4	1.2
Financial asset at fair value through profit or loss	5.7	3.8	Debt securities in issue	10.1	-
Loans and advances to customers	10.4	3.8			
Available-for-sale financial asset, Held to maturity Investment	9.9	2.0			
Total assets	**9.8**	**2.7**	**Total liabilities**	**5.9**	**1.4**

36. Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Bank of Slovenia. The table below provides an analysis of assets, liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under ‘maturity undefined’ category.

The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and balances with the Central Bank	27,832	-	-	-	-		27,832
Due from other banks	21,390	100	-	-	29,751	-	51,241
Financial assets at fair value through profit or loss	4,545	-	3	-	-	-	4,548
Loans and advances to customers	31,697	44,558	118,873	108,880	47,678	-	351,686
Available-for-sale securities	20,599	8,855	4,381	35,460	13,568	-	82,863
Held to maturity investments	22,042	40,194	21,999	23,782	35,445	-	143,462
Investments in associates and other investmensts	-	-	-	-	-	9,287	9,287
Investments in subsidiaries	-	-	-	-	-	438	438
Intangible assets	1,098	-	116	451	2,608	-	4,273
Property and equipment	770	3	794	744	11,981	-	14,292
Accrued income, other assets and deferred tax assets	8,967	2,151	5,533	8,689	1,575	-	26,915
Total assets	**138,940**	**95,861**	**151,699**	**178,006**	**142,606**	**9,725**	**716,837**
Liabilities							
Due to other banks	6,877	1,283	20	341	-	-	8,521
Due to customers	311,275	119,737	59,310	25,123	1,574	-	517,019
Debt securities in issue			1,796	27,553	10,891	-	40,240
Other borrowed funds	3,800	1,298	8,706	34,470	4,368	-	52,642
Accruals, provisions,other liabilities and deferred tax liabilities	10,043	1,452	2,935	4,674	624	-	19,728
Subordinated liabilities	-	-	6	8,692	13,437	-	22,135
Total liabilities	**331,995**	**123,770**	**72,773**	**100,853**	**30,894**	**-**	**660,285**
Minority interest	-	-	-	-	-	1,911	1,911
Total Shareholders Funds	-	-	-	-	-	54,641	54,641
On-balance-sheet liquidity gap at 31 December 2004	**(193,055)**	**(27,909)**	**78,926**	**77,153**	**111,712**	**(46,827)**	**-**
Off-balance-sheet assests[1]	173,678	52,860	118,728	82,691	272,654	**-**	700,611
Off-balance-sheet liabilities[1]	173,678	52,860	118,728	82,691	272,654	**-**	700,611

Off-balance-sheet liquidity gap at 31 December 2004	-	-	-	-	-	-	-
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2004	**(193,055)**	**(27,909)**	**78,926**	**77,153**	**111,712**	**(46,827)**	**-**
Total assets at 31 December 2003	107,177	67,434	146,707	138,231	81,562	8,471	549,582
Total liabilities at 31 December 2003	251,063	112,365	60,005	62,606	12,751	-	498,790
Minority interest	-	-	-	-	-	805	805
Total Shareholders Funds	-	-	-	-	-	49,987	49,987
On-balance-sheet liquidity gap at 31 December 2003	**(143,886)**	**(44,931)**	**86,702**	**75,625**	**68,811**	**(42,321)**	**-**
Off-balance-sheet liquidity gap at 31 December 2003	-	-	-	-	-	-	-
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2003	**(143,886)**	**(44,931)**	**86,702**	**74,820**	**68,811**	**(49,321)**	**-**

[1]Off-balance-sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and receivables and payables under guarantees, letters of credit and committed facilities.

37. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. All trading positions are mark to market daily and most of them are managed by the system of limitation.

The Group also applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

The daily market value at risk measure (VAR) is an estimate, with a confidence level set at 95 %, of the potential loss which might arise if the current positions were to be held unchanged for one business day. The measurement is structured so that daily losses exceeding the VAR figure should occur, on average, not more than once every sixty days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

38. Concentration of assets and liabilities

	2004		2003	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Geographic region				
Slovenia	679,091	651,055	524,237	504,562
European Union	24,973	49,991	14,028	41,458
Former Yugoslavia	4,521	2,102	1,141	1,745
Others	8,252	13,689	10,176	1,817
Total	**716,837**	**716,837**	**549,582**	**549,582**

39. Related party transactions

a) by Balance Sheet as of 31 December 2004

	Subsidiaries	**Associates**
Due from other banks	360	55
Loans and advances to customers	16,842	518
Securities available for sale and investments held to maturity	-	714
Investments in associates and subsidiares together	6,123	5,006
Due to other banks	14	-
Due to customers	452	1,005
Debt securities in issue	55	1,311

by Income Statement as of 31 December 2004

	Subsidiaries	**Associates**
Net interest income	538	39
Dividend income	1,532	74
Net fee and commissions income	83	52
Net profit from financial operations	64	2
Costs of services	77	51

40. Balance Sheet – Poštna banka Slovenije d.d. (under SAS)

Further to Note 2, effective September 2004, the Group purchased 55% of Poštna banka Slovenije. The balance sheet at the time of purchase was:

	31.12.2003	30.09.2004	31.12.2004
Assets			
Cash and balances with the Central Bank	6,343	6,607	7,573
Due from other banks	1,194	15,655	18,129
Financial assets at fair value through profit or loss	2,149	2,753	2,854
Loans and advances to customers	30,131	36,606	37,142
Available-for-sale financial assets + Held to maturity investments	56,746	46,423	41,661
Investments in associates and other investments	12	12	12
Investments in subsidiaries	-	-	-
Intangible assets	452	375	399
Property and equipment	1,481	1,333	1,283
Accrued income, other assets and deferred tax assets	2,707	2,053	1,919
Total assets	**101,215**	**111,817**	**110,972**
Liabilities			
Due to other banks	2,441	3,162	3,975
Due to customers	82,269	90,240	87,015
Debt securities in issue	8,691	7,432	10,711
Accruals, provisions, other liabilities and deferred tax liabilities	2,824	4,693	2,856
Subordinated liabilities	1,650	2,950	2,950
Total liabilities	**97,875**	**108,477**	**107,507**
Shareholders' equity			
Share capital	1,243	1,243	1,243
Reserves	2,097	2,097	2,222
Total shareholders' equity	**3,340**	**3,340**	**3,465**
Total liabilities and shareholders' equity	**101,215**	**111,817**	**110,972**

KPMG

Review Report

To the Shareholders of Nova Kreditna banka Maribor, d.d., Maribor

We have reviewed the accompanying balance sheet of Nova Kreditna banka Maribor, d.d., Maribor at June 30, 2006, and at June 30, 2005 and the related statements of income for the period from January 1, 2006 until June 30, 2006 and for the period from January 1, 2005 until June 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Management has informed us that financial statements do not include income tax expense and tax related liabilities as required by IAS 12. The effect of this omission on net income of the period from January 1, 2006 until June 30, 2006 would amount to SIT 1.357 million, which represents one half of estimated tax expense for the NKBM on annual level. Estimated amount of SIT 1.349 million applies for the comparative figures.

Based on our review, except for the effects of the items described in paragraph 3 nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects in accordance with International Financial Reporting Standards as adopted by the EU.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Boris Drobnič, B.Sc.Ec.

Certified Auditor

Partner

Ljubljana, 1 September 2006

KPMG Slovenija, d.o.o.

BANK INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE

	in thousands of SIT	
	2006	**2005**
Interest income	18,230,682	15,740,779
Interest expense	(7,829,462)	(6,521,750)
Net interest income	**10,401,220**	**9,219,029**
Fee and commission income	4,330,036	4,009,834
Fee and commission expense	(571,825)	(402,285)
Net fee and commission income	**3,758,211**	**3,607,549**
Dividend income	124,671	1,071,360
Income from associates	-	-
Net trading income	(260,020)	805,172
Income from sale of subsidiaries	48,325	144,737
Other operating income	(54,473)	715,919
Operating income	**14,017,934**	**15,563,766**
General administrative expenses	(7,814,883)	(7,749,512)
Depreciation and amortisation	(1,033,735)	(817,668)
Other expenses	-	-
Operating expenses	**(8,848,618)**	**(8,567,180)**
Impairment for losses	(1,858,694)	(2,165,608)
Profit before tax	**3,310,622**	**4,830,978**
Income tax expense	(327,029)	-
Income after tax	**3,637,651**	**4,830,978**

BANK BALANCE SHEET
AS AT 30 JUNE

	2006	2005
	in thousands of SIT	
Assets		
Cash and balances with Central Bank	16,798,697	14,528,396
Due from other banks, net	42,849,235	42,520,964
Financial assets at fair value through profit or loss	38,557,655	13,070,985
Loans and advances to customers	455,893,481	362,986,421
Available-for-sale financial assets	119,181,164	82,507,994
Held-to-maturity investments	69,378,196	98,955,444
Investments in associates and other investments	6,619,375	7,509,266
Unconsolidated investment in subsidiary	441,947	439,071
Intangible assets	4,444,388	3,858,674
Property and equipment	13,432,083	12,320,278
Accrued income, other assets and deferred tax assets	12,544,200	5,179,689
Total assets	**780,140,421**	**643,877,182**
Liabilities		
Due to other banks	12,868,008	6,055,728
Due to other customers	492,154,832	450,761,390
Debt securities in issue	36,090,089	37,277,482
Other borrowed funds	145,672,262	57,360,318
Accruals, provisions, other liabilities and deferred tax liabilities	15,565,303	12,915,235
Subordinated liabilities	19,170,280	19,171,282
Total liabilities	**721,520,774**	**583,541,435**
Shareholders' equity		
Share capital	5,839,496	5,839,496
Retained profits	14,305,042	17,402,216
Reserves	38,475,109	37,094,035
Total equity	**58,619,647**	**60,335,747**
Total liabilities and shareholders' equity	**780,140,421**	**643,877,182**

KPMG

Report of the independent auditor to the shareholders of Nova Kreditna banka Maribor d.d., Maribor

We have audited the accompanying unconsolidated balance sheet of Nova Kreditna banka Maribor d.d., Maribor as of 31 December 2005, and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. These unconsolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU are the responsibility of the Group'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 unconsolidated financial statements give a true and fair view of the financial position of the Nova Keditna banka Maribor d.d. as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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

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

KPMG Slovenija, d.o.o.
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Ljubljana, 10 May 2006

BANK INCOME STATEMENT
FOR THE YEAR ENDED

in millions of SIT

	Notes	2005	2004
Interest income		31,533	31,039
Interest expense		(13,811)	(14,471)
Net interest income	3	**17,722**	**16,568**
Fee and commission income		8,619	7,648
Fee and commission expense		(1,104)	(793)
Net fee and commission income	4	**7,515**	**6,855**
Dividend income		380	179
Income from associates	5	1,386	1,102
Income from subsidiaries		539	680
Gain from sale / joining of subsidiaries		178	-
Net trading income / expenses	6	4,379	1,665
Other operating income	7	1,551	1,241
Operating income		**33,650**	**28,290**
General administrative expenses	8	(16,286)	(15,685)
Depreciation and amortization	9	(1,629)	(2,580)
Other expenses		(591)	(235)
Operating expenses		**(18,506)**	**(18,500)**
Impairment losses	10	(4,127)	(3,989)
Profit before tax		**11,017**	**5,801**
Income tax expense	11	(2,698)	(3,096)
Profit for the period		**8,319**	**2,705**

The accompanying notes are an integral part of these financial statements.

BANK BALANCE SHEET
AS AT 31 DECEMBER

in millions of SIT

	Notes	2005	2004
Assets			
Cash and balances with the Central Bank	13	12,838	20,134
Due from other banks	14	59,642	30,023
Financial assets at fair value through profit or loss	15	45,706	135
Loans and advances to customers	16	386,646	331,497
Available-for-sale financial assets	17	94,552	82,863
Held-to-maturity investments	18	76,079	101,801
Investments in associates and other investments	19	7,632	5,987
Investments in subsidiaries	20	5,316	6,495
Intangible assets	21	4,234	3,729
Property and equipment	22	13,496	11,048
Accrued income, other assets and deferred tax assets	23	11,373	10,324
Total assets		**717,514**	**604,036**
Liabilities			
Due to other banks	24	4,519	8,238
Due to customers	25	468,261	434,789
Debt securities in issue	26	37,313	29,693
Other borrowed funds	27	110,907	43,909
Accruals, provisions, other liabilities and deferred tax liabilities	28	18,335	14,975
Subordinated liabilities	29	19,166	19,185
Total liabilities		**658,501**	**550,789**
Shareholders' equity			
Share capital		5,840	5,840
Retained profits		7,498	5,157
Reserves		45,675	42,250
Equity attributable to equity holders		**59,013**	**53,247**
Total liabilities and shareholders' equity		**717,514**	**604,036**

The accompanying notes are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

in millions of SIT

	Share capital	General banking reserve	Capital reserve	Statutory / legal reserve	Revaluation reserve	Retained profits	Total
Balance at 31 December 2003	**5,600**	**7,414**	**0**	**28,716**	**1,294**	**5,733**	**48,757**
Increase of share capital	240	-	1,567	-	-	-	1,807
Dividend for 2003	-	-	-		-	(1,716)	(1,716)
Profit for the period	-	-	-	-	-	2,705	2,705
Revaluation of available-for-sale financial instruments	-	-	-	-	1,694	-	1,694
Transfer to statutory / legal reserve	-	-	-	1,565		(1,565)	-
Balance at 31 December 2004	**5,840**	**7,414**	**1,567**	**30,281**	**2,988**	**5,157**	**53,247**
Increase of share capital	-	-	-	-	-	-	-
Dividend for 2004	-	-	-		-	(1,055)	(1,055)
Profit for the period	-	-	-	-	-	8,319	8,319
Revaluation of available-for-sale financial instruments	-	-	-	-	(1,498)	-	(1,498)
Transfer to statutory / legal reserve	-	-	-	4,173		(4,173)	-
Increase of general banking reserve		750				(750)	-
Balance at 31 December 2005	**5,840**	**8,164**	**1,567**	**34,454**	**1,490**	**7,498**	**59,013**

The accompanying notes are an integral part of these financial statements.

BANK CASH FLOW STATEMENT
FOR THE YEAR ENDED

in millions of SIT

	2005	2004
Cash flows from / (used in) operating activities:		
Net income before tax	11,017	5,801
Investment in associates	(1,386)	(1,102)
Depreciation and amortization	1,629	2,580
Gain on disposal of fixed assets	(24)	(24)
Impairment loss	4,127	3,989
Dividend received	(380)	(179)
Income tax expense	(2,698)	(3,096)
Cash flows from operating profits before changes in operating assets and liabilities	**12,285**	**7,969**
Changes in operating assets and liabilities:		
Cash and balances with the Central Bank	2,064	(745)
Due from other banks	(9,221)	(11,810)
Loans and advances to customers	(57,857)	(59,884)
Available for sale financial assets	(13,187)	4,076
Held to maturity investments	25,722	12,270
Other assets, including tax assets	(1,184)	241
Due to other banks	(3,719)	(2,768)
Due to customers	33,472	25,659
Accruals, provisions and other liabilities	2,347	468
Subordinated liabilities	(19)	12,053
Net cash used in operating activities	**(9,297)**	**(12,471)**
Cash flows from / (used in) investing activities:		
Acquisition of property and equipment	(4,704)	(2,501)
Proceeds from sale of property and equipment	146	104
Investments subsidiaries and associates	920	(775)
Dividends received from associates	380	179
Net cash flows from investing activities	**(3,258)**	**(2,993)**
Cash flows from / (used in) financing activities:		
Issue of share capital	-	1,807
Debt securities in issue	7,620	11,915
Other borrowed funds	66,998	8,992
Dividends paid	(1,055)	(1,716)
Net cash flows from financing activities	**73,563**	**20,998**
Increase in cash	**61,008**	**5,534**
Cash and cash equivalents at beginning of year	**31,538**	**26,004**
Cash and cash equivalents at end of year	**92,546**	**31,538**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS NOVA KREDITNA BANKA MARIBOR D.D.

1. General Information and basis of presentation

Nova Kreditna banka Maribor d.d. ("the Bank") is a Slovenian universal commercial bank incorporated under the laws of Slovenia. The majority shareholder is the Republic of Slovenia, who owns 90.4% of the shares. Remaining 9.6% is split equally between the Kapitalska družba d.d. (Capital Fund of the Republic of Slovenia) and the Slovenska odškodninska družba d.d. (Compensation Fund of the Republic of Slovenia).

The registered office is of Nova Kreditna banka Maribor d.d. ("Nova KBM") is Maribor Ulica Vita Kraigherja 4.

The financial statements were authorised for issue by the Directors on 10 May 2006.

2. Summary of Significant Accounting Policies

(a) Statement of Compliance

The financial statements have been prepared in accordance International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB Standing Interpretations Committee of the IASB.

(b) Basis of Preparation

The reporting currency used in financial statements is Slovene Tolars ("SIT") with rounding to the nearest SIT million, unless otherwise specified.

The financial statements have been prepared under the historical cost basis, modified by the revaluation of available-for-sale investment securities, financial assets at fair value through profit or loss and derivative financial instruments.

(c) Basis of Accounting

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognized when they occur and they are reported in financial statements of the periods to which they relate, and on the going concern basis. The financial statements consist of: the balance sheet, income statement, statement of changes in equity, cash flow statement and explanatory notes to the financial statements.

The preparation of financial statements in conformity with IFRS requires management to make 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. These estimates are based on the information available as of the date of the financial statements. The subsequent actual results could thus differ from those estimates.

(d) Introduction of amended IFRS

In 2004, the Bank applied amended IAS 39 Financial Instruments: Recognition and Measurement, effective for annual periods beginning on or after 1 January 2005 (earlier application permitted). The first application of amended IAS 39 permits an entity to designate a previously recognised financial asset as a financial asset at fair value through profit or loss or available-for-sale financial assets, which resulted in the reclassification of the Bank's financial assets.

(e) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into SIT at year end at the mid exchange rate declared by the Central Bank ("CB") on the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Slovenian Tolars in the underlying accounting system of the Bank and are therefore reported in financial statements at the mid exchange rate of the Central Bank prevailing at the transaction date. Gains and losses arising on monetary assets from movements in exchange rates are included in '*Net trading income'*.

(f) Financial instruments

In preparing accounting and financial statements for 2004 the Bank applied the amended IAS 39. By applying this standard, the Bank reclassified the majority of its Securities held for trading as *'Securities-available-for sale'*. A portion of Investments held-to-maturity was also reclassified into '*Securities-available-for sale'*. In the interest of consistency as well as for comparative porposes the standard was applied retrospectively.

(i) Classification

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets (equity and debt securities, treasury bills) acquired by the Bank for the purpose of generating a profit from short-term price fluctuations.

Interest earned on trading securities is reported as '*Interest income*' in the income statement. Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet under '*Prepayments, accrued income and other assets'* and in '*Dividend income'* in the income statement.

All purchases and sales of financial assets at fair value through profit or loss that require delivery within the time frame established by regulation or market convention ('regular way purchases and sales') are recognised as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity. This portfolio consist of treasury bills and debt securities. Held-to-maturity investments are carried at amortized cost.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. A financial asset's carrying amount is the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. Any impairment losses recognised during the reporting period are included in the income statement as an 'Impairment loss'.

Available-for-sale financial assets

Available-for-sale financial assets are those securities that are not classified as Financial assets at fair value through profit or loss or Held-to-maturity investments. This portfolio consist of equity securities and debt securities.

Interest earned on securities available-for-sale is reported as 'Interest income' in the income statement.

Dividends on securities available-for-sale are recorded at declaration date and are included as a receivable in the balance sheet line '*Prepayments, accrued income and other assets'* and in '*Dividend income*' in the income statement. Upon payment of the dividend, the receivable is offset against the cash received.

Available-for-sale financial assets are stated at fair value by applying a valuation technique that take into account the scope and the depth of the respective market.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale financial assets are recognised directly in equity, through the Statement of changes in equity in the 'Revaluation reserve'. When such financial assets are subsequenty derecognised, the difference between the carrying amount and fair value previously recognised in equity, is transferred to the income statement, and included in the line '*Net trading income'.*

Derivative financial instruments
In the normal course of business the Bank engages as a party to contracts for derivative financial instruments which represent a very low initial investment compared to the notional value of the contract.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently re-measured to fair value.

Loans and Loan Impairment
Loans originated by the Bank by providing money directly to a borrower are categorised as loans originated by the Bank and are carried at amortised cost. All loans and advances are recognised when funds are advanced to borrowers.

Loans are reported at their outstanding unpaid principal balances increased by any accrued interest and reduced by any commissions and impairment for loan losses, net of any deferred fees or costs of loan origination. Impairment is made for any amounts for which, in the opinion of management, recovery is uncertain. The amount of the impairment is based on the discounted cash flow of the future receivables associated with the loan.

A specific credit risk provision has been created to provide for management's estimate of credit losses that may arise as soon as the recovery of an exposure is considered to be doubtful. In the case of loans to borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made, and additional country risk impairment is established as necessary.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement, if previously written off.

The Bank must, within the framework of prescribed and internal criteria, classify balance sheet and off-balance-sheet asset items according to their level of risk and evaluate potential losses deriving from credit risks. Specific provisions for impairment losses that the Bank establishes according to classification of claims in groups B, C, D and E are recorded as the value adjustments of claims on the assets side of the balance sheet. Impairment for potential losses that the Bank establishes for claims in group A, are also recorded as the value adjustments of claims on the asset side of balance sheet.

(ii) Recognition
The Bank recognises financial assets at fair value through profit or loss and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised in the financial statements. Held-to-maturity investments as well as loans and receivables are recognised on the day they are transferred to the Bank.

(iii) Measurement
Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all financial assets and liabilities at fair value through profit or loss and all available-for-sale assets are measured at fair value with the exception of financial instruments whose fair value cannot be measured reliably. The latter financial instruments include those which do not have a quoted market price in an active market and they are stated at cost (including transaction costs) less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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 an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains or losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of financial assets or liabilities at fair value through profit or loss are recognised in the income statement.

(g) Intangible assets

Intangible assets encompass investments in computer software, licences and costs capitalised to assets owned by others. They are amortized on using the straight-line basis either at 20% per annum, or the contractual duration of a specific licence, and the annual amortisation charge is included in the income statement in 'Depreciation and amortisation'.

Depreciation on self-constructed intangible assets commence when the assets are available for use.

An impairment adjustment is made at the end of the year if the carrying amount of the intangible assets exceeds its recoverabe amount.

(h) Property, plant and equipment

Property and equipment are stated at cost, together with the annual revaluation, less accumulated depreciation and any impairment losses.

The Bank periodically tests its property, plant and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount. The write off is recognised in the income statement as in impairment loss.

Gains and losses on the disposal of assets are determined by reference to their carrying amount and are taken into account in determining operating income. Repairs and renewals are charged to the income statement when the expenditure is incurred. Reversals of impairment losses, which arise as a result of changes in the estimates used to determine the recoverable amount of the assets, are recognized as income immediately in the income statement.

The Bank does not record increases in the book value of its property, plant and equipment.

The costs of increase the value of the property, plant and equipment are capitalized.

Depreciation is calculated on the straight-line method at rates intended to write off the depreciable amount of items of property, plant and equipment over their estimated useful lives. The depreciation rates applied in the preparation of the financial statements are:

	2005	2004
	(%)	(%)
Buildings	3.0	5.0
Furniture	6.7 - 25.0	6.7 - 25.0
Computers	33.33	50.0
Motor vehicles	12.50	25.0
Finance leases	12.50	33.3

(i) Leases

Leases are classified as finance leases when the lease agreement transfers to the lessee substantially all the risks and rewards of ownership. All other leases are classifies as operating leases.

The Bank as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the Bank's net investment outstanding in respect of the relevant leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Bank as lessee
Assets held under finance leases are recognized at their fair value at acquisition date. The corresponding liability due to the lessor is included in the Balance Sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charge to the income statement over the duration of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals due under operating leases are charged to the income statement on a straight-line basis over the terms of the relevant lease.

(j) Provisions

The Bank recognizes a provision only when all of the following criteria are met:
- It has 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) Provisions for charges and for guarantees and other off-balance sheet credit related commitments

In the normal course of business the Bank enters into credit related commitments, which are recorded in off-balance-sheet accounts. These commitments primarily include guarantees, letters of credit and unused loan commitments. Specific provisions are made for estimated losses on these commitments on the same basis as set out in note (k).

Provisions for off-balance-sheet exposures are recorded in other provisions disclosed within the balance sheet category “Other liabilities” (Refer to note 28).

(l) Provisions for General Banking Reserves and Other General Provisions

The Bank sets aside a general provision for risks that are judged by management to be present at the balance sheet date, but which has not been allocated to specific or individual exposures.

Provisions for general banking risks and the movement thereon are recorded within equity in accordance with IAS 30.

(m) Debt Securities in Issue

Debt securities issued by the Bank are stated at amortised cost using the effective interest rate method. Interest expense arising on the issue of debt securities is included in the income statement line item ‘*Interest expense.’*

In the event of the repurchase of its own debt securities, the Bank de-recognises these debts so as to reflect the economic substance of the transaction as a repayment of the Bank’s commitment. The Bank reflects the decrease in its liabilities in the balance sheet line ‘*Debt securities in issue* ’. Gains and losses arising as a result of the repurchase of the Bank’s own debt securities are included in ‘*Net trading income’* or in ‘*Net interest income.*’ The Bank reports the repurchased debt securities as assets only if a contractual commitment to resell the securities in the future exists.

(n) Interest, Discount received and Discount allowed

Interest is calculated in accordance with Slovenian law and agreements between the Bank and it's clients. Interest is added to the principal if this is stipulated in the agreement.

Interest, discount received and discount allowed and expense are recognized in the financial statements using the effective interest rate method.

The recognition of interest income ceases as soon as the receipt or the interest is in doubt. Interest is included in income thereafter only for performing loans. The income from doubtful claims is included in the statement of income only when received.

(o) Fees and Commission Income and Expense

Fees and commission income and expense consist of commissions on domestic and foreign payment traffic, fees arising from guarantees and loans given by the Bank and from other services. Fees and commission income and expense are recognized in the income statement under the same convention as interest income and expense.

Commission income arising from loans with a maturity date of over one year, is deferred and taken to income an a straight line basis.

(p) Taxation

Current tax is determined in accordance with the provisions of the relevant legislation of the Republic of Slovenia. In accordance with such legislation, banks calculate tax on profit as 25% of taxable profits.

Deferred taxation is provided using the balance sheet liability method for all temporary differences arising between the tax bases of assets or liabilities and their carrying amount for financial reporting purposes. Currently enacted tax rates are used to determine the deferred tax balance.

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

(q) Sale and Repurchase Agreements

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet lines '*Financial asset at fair value through profit or loss*' and '*Available-for-sale financial asset*' and the counterpart liability is included in '*Due to banks*' or '*Due to customers*' as is appropriate under the relevant circumstances. Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the balance sheet line '*Due from banks*' or '*Loans and advances to customers*' as appropriate, with the corresponding decrease in cash being included in '*Cash and balances with the Central Bank*.' The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

(r) Segmental Reporting

The condensed financial statements of subsidiaries, representing separate segments of the business other than banking, are not presented due to their immateriality.

(s) Regulatory requirements

The Bank is subject to the regulatory requirements of the Central Central Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk, liquidity, interest rate and foreign currency position.

(t) Comparatives

Where appropriate, certain comparative figures have been reclassified to conform to the presentation in the current year.

(u) Estimation of fair values

The following is a summary of the major methods and assumptions used in estimating the fair values of financial instruments as reflected below.

Loans and advances: Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. Quoted market prices for instruments backed by similar loans, adjusted for different loan characteristics, are also used in estimating fair value. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments carried at cost and derivatives: Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques. 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 for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

Bank and customer deposits: For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long term relationships with depositors is not taken into account in estimating fair values.

Long-term debt: Fair value is based on quoted market prices, if available. For debt instruments without quoted prices, the fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Bank for new debt of a similar type and remaining maturity period.

3. Net interest income

in millions of SIT

	2005	2004
Interest income		
- Cash and balances with the Central Bank	102	128
- Loans to banks	1,336	402
- Loans and advances to customers	21,683	21,445
- Securities	8,336	8,985
- Other	76	79
Total interest income	**31,533**	**31,039**
Interest expense		
- Balances with the Central Bank	2	9
- Bank deposits	250	659
- Customer deposits	8,942	10,602
- Debt securities	2,625	1,963
- Other borrowed funds	1,992	1,237
- Other	0	1
Total interest expense	**13,811**	**14,471**
Net interest income	**17,722**	**16,568**

4. Net fee and commission income

in millions of SIT

	2005	2004
Fee and commission income		
- Guarantees given by the bank	528	546
- Services to the Group companies	39	46
- Domestic payment traffic	2,232	1,986
- Foreign payment traffic	956	988
- Intermediary and commission services	20	27
- Securities services	12	-
- Commission from loans	1,250	773
- Administrative services	3,577	3,277
- Depot and vault	5	5
Total fee and commission income	**8,619**	**7,648**
Fee and commission expense		
- Domestic banking services	481	360
- Foreign payment traffic	398	298
- Foreign exchange services	1	2
- Stock Exchange services	25	12
- Domestic payment traffic	139	60
- Other services	60	61
Total fee and commission expense	**1,104**	**793**
Net fee and commission income	**7,515**	**6,855**

5. Income from associates

in millions of SIT

	2005	2004
Zavarovalnica Maribor d.d.	1,287	1,077
Adria Bank AG	111	57
Moja naložba d.d.	(12)	(32)
Total	**1,386**	**1,102**

6. Net trading income

in millions of SIT

	2005	2004
Net realised gains on foreign exchange	497	1,056
Net realised gains on derivative financial instruments	-	50
Net unrealised gains/(losses) on derivative financial instruments	41	184
Net realised gains on financial assets at fair value through profit or loss	959	328
Net unrealised gains on financial assets at fair value through profit or loss	2,882	47
Net trading income/expenses	**4,379**	**1,665**

7. Other operating income

in millions of SIT

	2005	2004
Income from non-banking services	1,476	1,109
Proceeds on sale of property, plant and equipment	75	132
Other operating income	**1,551**	**1,241**

Other operating income consist of income from renting business facilities, POS terminals, recreation facilities, apartments and other income.

8. General administrative expenses

in millions of SIT

	2005	2004
Employee costs		
- salaries	7,067	6,953
- social security costs	1,065	1,044
- other employee costs	1,310	1,345
Material costs	710	602
Service costs		
- operating lease	524	449
- professional services	245	249
- maintenance	1,188	1,408
- advertising and promotion	845	706
- insurance costs	155	92
- educational costs	137	101
- other	3,040	2,736
Total general administrative costs	**16,286**	**15,685**
Salaries of the Management Board	102	94

The average number of employees during 2005 was 1,556 (2004: 1,577)

9. Depreciation and amortization

in millions of SIT

	2005	2004
Depreciation of property and equipment	1,149	1,789
Amortization of intangible assets	480	791
Total depreciation and amortization	**1,629**	**2,580**

10. Impairment losses

in millions of SIT

	2005	2004
Write-down		
Balance sheet items		
Due from Banks	***589***	***48***
Due from Banks	271	
Due from Banks - specific provision - legal cases	318	
Loans and advances to customers	***3,051***	***4,511***
Loans and advances to customers	1,920	
Loans and advances to customers - write off	116	
Loans and advances to customers - spec. provision	372	
Loans and advances to customers - spec. provision	643	
Other assets	***212***	***172***
Other assets	136	
Other assets - write off	41	
Other assets - other	35	
Off balance sheet items	***275***	***(742)***
Total provision for losses	**4,127**	**3,989**

11. Income tax expense

in millions of SIT

	2005	2004
Current tax expense	2,241	1,290
Deferred tax expense	457	114
Balance sheet tax	0	1,692
Total	**2,698**	**3,096**
Income before tax	**11,017**	**5,801**
Prima facie tax calculated at a tax rate of 25% (2004:25%)	2,754	1,450
Expenses not deductible for tax purposes	(513)	1,532
Deferred tax expense	457	114
Tax expense	**2,698**	**3,096**

12. Deferred income taxes

in millions of SIT

	2005	2004
Deferred tax assets	**448**	**81**
- from striking deposits	265	0
- from legal cases	20	0
- from derivative financial instruments	(4)	(53)
- from fee	167	134
Deferred tax liabilities	**905**	**195**
- from financial assets at fair value through profit or loss	721	12
- from derivative financial instruments	6	(7)
- from rate credit client's (per Central Bank regulations)	178	190
Net deferred tax liabilities	**(457)**	**(114)**

13. Cash and balances with the Central Bank

in millions of SIT

	2005	2004
Cash on hand	4,937	4,786
Balances with the Central Bank	7,901	15,348
Total cash and balances with the Central Bank	**12,838**	**20,134**

The Bank was required to maintain an obligatory reserve with the Central Bank, relative to the volume and structure of its customers' deposits. Balances with the Central Bank included obligatory reserve deposits of SIT 4,599 million (2004: SIT 6,663 million). These funds are not available to finance the Group's day to day operations.

14. Due from other banks, net

in millions of SIT

		2005	2004
Placements with other banks		55,317	29,876
Loans and advances to other banks		4,849	400
Total		**60,166**	**30,276**
Impairment		(524)	(253)
Total net of impairment		**59,642**	**30,023**
Movements in impairment were as follows:			
Balance at 1 January		**253**	**56**
Opening adjustment			216
Increase in impairment	(Note 10)	369	61
Decrease in impairment	(Note 10)	(98)	(80)
Balance at 31 December		**524**	**253**

15. Financial assets at fair value through profit or loss

Held for trading financial assets

in millions of SIT

	2005	2004
Shares and participation certificates	**7,851**	**135**
Debt securities	**37,855**	**-**
Fixed income debt securities		
Bonds	23,851	-
Variable income debt securities		
Bonds	14,004	-
Total held for trading financial asset	**45,706**	**135**

Held for trading shares and participation certificates comprise: in millions of SIT

	2005	2004
Shares and participation certificates in Slovenian Tolars		
- listed	7,487	135
- unlisted	230	
Shares and participation certificates in other currencies		
- listed	134	
Total held for trading shares and participation certificates	**7,851**	**135**

Held for trading shares and participation certificates, allocated by issuer comprise: in millions of SIT

	2005	2004
- Other financial institutions	2,958	-
- Other money institutions	15	-
- Other domestic entities	4,878	135
Total held for trading shares and participation certificates	**7,851**	**135**

Held for trading debt securities comprise: in millions of SIT

	2005	2004
- Slovene Tolars	-	-
- Other currencies	37,855	-
Total held for trading debt securities	**37,855**	**-**

Held for trading debt securities, allocated by issuer comprise: in millions of SIT

	2005	2004
- Other foreign entities	37,855	-
Total held for trading debt securities	**37,855**	**-**

16. Loans and advances to customer

in millions of SIT

	2005	2004
Overdrafts	12,740	11,761
Credit cards	151	117
Short term loans		
- Slovene Tolars	103,455	122,640
- Other currencies	97,921	68,650
Long term loans		
- Slovene Tolars	123,904	100,526
- Other currencies	77,854	55,217
Claims from granted guarantees	913	958
Gross loans and advances	**416,938**	**359,869**
Impairment	(30,292)	(28,372)
Net loans and advances	**386,646**	**331,497**

Movement in impairment for impairment were as follows: in millions of SIT

	2005	2004
Balance at 1 January	**28,372**	**25,775**
Opening adjustment		(1,099)
Doubtful debts, impairment made	17,329	17,770
Recoveries and releases	(15,409)	(14,074)
Balance at 31 December	**30,292**	**28,372**

Loan portfolio by sectors was as follows: in millions of SIT

	2005		2004	
Non-financial corporations	230,425	55.3	207,060	57.6
General government	5,935	1.4	7,365	2.0
Financial institutions	29,137	7	26,739	7.4
Citizens	137,500	33	111,119	30.9
Non-residents	12,944	3.1	6,937	1.9
Non-profit institutions serving households	997	0.2	649	0.2
Gross loans and advances	**416,938**	**100.0**	**359,869**	**100.0**
Impairment	(30,292)		(28,372)	
Net loans and advances	**386,646**		**331,497**	

Loans guaranteed by the Republic of Slovenia or Slovenian banks

in millions of SIT

	2005	2004
Republic of Slovenia guarantees	14,872	14,488
Slovenian bank's guarantees	379	273
Total	**15,251**	**14,761**

17. Available-for-sale financial assets

in millions of SIT

	2005	2004
Bonds		
- Fixed yield	50,808	10,519
- Variable yield	19,732	49,998
Treasury bills with fixed yield	209	12,410
Other bills with fixed yield - cash certificate	23,803	2,798
Shares	-	6,716
Certificate of deposit with fixed yield	-	317
Other	-	105
Total available-for-sale financial assets	**94,552**	**82,863**

Available-for-sale financial assets by currency comprise: in millions of SIT

	2005	2004
Bonds		
- Slovene Tolars	59,126	41,119
- Other currencies	11,414	19,398
Treasury bills in Slovene Tolars	209	12,410
Other bills in Slovene Tolars - cash certificate	23,803	2,798
Shares issued in Slovene Tolars	-	6,716
Certificate of deposit with fixed yield in Slovene Tolars	-	317
Other	-	105
Total available-for-sale debt financial assets	**94,552**	**82,863**

Available-for-sale debt financial assets allocated by issuer, comprise: in millions of SIT

	2005	2004
- Domestic state institutions	53,635	50,729
- Central Bank	23,803	12,410
- Domestic financial institutions	9,171	4,726
- Other domestic entities	5,079	4,230
- Foreign institutions	2,864	10,768
Total available-for-sale debt financial assets	**94,552**	**82,863**

18. Held-to-maturity investments

in millions of SIT

	2005	2004
Bonds		
- Fixed yield bonds	1,416	23,527
- Variable yield bonds	41,958	22,712
Cash certificate		
- Fixed yield	32,102	
Certificate of deposti		
- Fixed yield	603	
Treasury bills		
- Fixed yield treasury bills		55,562
Total held-to-maturity investments	**76,079**	**101,801**

Debt held-to-maturity investments comprise: in millions of SIT

	2005	2004
Variable yield debt securities		
- Slovene Tolars	41,812	22,566
- Other currencies	146	146
Fixed income debt securities		
- Slovene Tolars	2,019	23,527
- Other currencies	32,102	55,562
Total debt held-to-maturity investments	**76,079**	**101,801**

Held-to-maturity investments, allocated by issuer, comprise: in millions of SIT

	2005	2004
- Domestic state institutions	42,312	46,093
- Central Bank	32,102	55,562
- Other financial institutions	603	-
- Foreign financial institutions	146	146
- Other institutions	916	-
Total debt held-to-maturity investments	**76,079**	**101,801**

19. Investments in associates and other investments

Investments in associated companies and other investments comprise: in millions of SIT

	2005	2004
Shares in associated companies	6,257	4,901
Other investments	1,375	1,086
Total investments in associates and other investments	**7,632**	**5,987**

in millions of SIT

Associated companies	Bank's ownership interest and voting power in %	Net book value 2005	Net book value 2004
Zavarovalnica Maribor d.d.	49.96	4,235	2,972
Moja naložba d.d.	45.00	194	161
Adria Bank AG	25.04	1,828	1,768
Total associated companies		**6,257**	**4,901**

in millions of SIT

Companies with minority interest	Bank's ownership interest and voting power in %	Net book value 2005	Net book value 2004
Banka Celje d.d.	0.09	27	11
Banka Vipa d.d.	0.05	0	7
Zveza hran. kred. služb d.d. LJ	0.01	0	-
Hranilnica LON d.d.	0.89	0	2
LHB Internationale Handelsbank AG	2.40	306	306
FMR d.o.o. Idrija	3.40	70	70
ISKRA Avtoelektrika d.d. Šempeter	1.50	121	121
IEDC Poslovna šola Bled d.o.o.	6.83	23	25
BANKART d.o.o. Ljubljana	12.99	83	83
Perutnina Ptuj d.d.	0.84	125	118
Marles Holding d.d. Maribor	11.56	265	265
TAM Maribor d.d.	1.18	-	-
Zavarovalnica TRIGLAV d.d. LJ.	0.06	15	15
KDD Centralna klirinško dep.dr. d.d.	1.50	20	7
Pozavarovalnica SAVA d.d. Ljubljana	0.00	7	7
Slovenska izvozna družba d.d. Ljubljana	0.07	10	10
S.W.I.F.T. Scrl	0.02	10	10
Vino Brežice d.d.	4.17	14	27
TVI Majšperk d.o.o.	40,60	0	-
Cestno podjetje Maribor d.d.	10,62	252	-
Steklarna Rogaška	30	0	-
Ljubljanska borza	4,60	26	-
Medicinsko rehabilitacijski center d.o.o.	8.95	1	2
Total companies with minority interest		**1,375**	**1,086**

20. Investments in subsidiaries

in millions of SIT

			2005	2004
	Country of incorporation	Bank's ownership and voting power interest	Net book value	Net book value
Fininvest d.o.o. Nova Gorica	Slovenia	100.00	-	241
KBM Invest d.o.o. Maribor	Slovenia	99.37	518	559
Gorica Leasing d.o.o.	Slovenia	100.00	288	281
Fineko d.o.o. Maribor	Slovenia	100.00	372	337
KBM Infond d.o.o. Maribor	Slovenia	68.00	1,004	1,120
KBM Leasing d.o.o. Maribor	Slovenia	100.00	785	701
MBH d.o.o. Maribor	Slovenia	100.00	-	1,029
Hotel Slavija d.d.	Slovenia	99.09	442	438
M-Pay d.o.o. Maribor	Slovenia	50.00	14	14
PBS d.d.	Slovenia	55.00	1,893	1,775
Total			**5,316**	**6,495**

21. Intangible assets

in millions of SIT

	Software licences	Capitalised costs of investments in foreign tangible assets	Construction in progress	Other intangible assets	Total
Cost or valuation					
At 1 January 2005	**4,627**	**558**	**1,098**	**75**	**6,358**
Additions	11	0	959	99	1,069
Transfers from implementation	1,094	10	(1,106)	2	0
Disposals	(1)	(33)	-	(75)	(109)
31 December 2005	**5,731**	**535**	**951**	**101**	**7,318**
Accumulated amortisation					
At 1 January 2005	**2,164**	**465**	**-**	**-**	**2,629**
Additions	7	-	-	43	50
Charge for the year	454	26	-	-	480
Disposals	(1)	(31)		(43)	(75)
31 December 2005	**2,624**	**460**	**-**	**-**	**3,084**
Net book value 31 December 2005	**3,107**	**75**	**951**	**101**	**4,234**
Net book value 31 December 2004	**2,463**	**93**	**1,098**	**75**	**3,729**

None of the Bank's intangible assets are pledged as collateral.

in millions of SIT

	Software licences	Capitalised costs of investments in foreign tangible assets	Construction in progress	Other intagibleas assets	Total
Cost or valuation					
At 1 January 2004	**3,745**	**565**	**894**	**1**	**5,205**
Additions	-	-	1,103	79	1,182
Transfers from implementation	884	15	(899)		-
Disposals	(2)	(22)	-	(5)	(29)
31 December 2004	**4,627**	**558**	**1,098**	**75**	**6,358**
Accumulated amortisation					
At 1 January 2004	**1,439**	**402**	**-**		**1,841**
Charge for the year	726	65	-	-	791
Disposals	(1)	(2)			(3)
31 December 2004	**2,164**	**465**	**-**	**-**	**2,629**
Net book value 31 December 2004	**2,463**	**93**	**1,098**	**75**	**3,729**
Net book value 1 January 2004	**2,306**	**163**	**894**	**1**	**3,364**

None of the Bank's intangible assets are pledged as collateral.

22. Property and equipment

in millions of SIT

	Land and Buildings	Computers	Other assets	Construction in progress	Total
Cost or valuation					
At 1 January 2005	**12,791**	**7,979**	**5,300**	**769**	**26,839**
Transfers	(18)	(2)	20	-	0
Additions	80	6	45	3,579	3,710
Transfers from implementation	1,929	1,459	665	(4,054)	(1)
Disposals	(48)	(319)	(382)	-	(749)
31 December 2005	**14,734**	**9,123**	**5,648**	**294**	**29,799**
Accumulated depreciation					
At 1 January 2005	**4,603**	**7,463**	**3,725**	**-**	**15,791**
Transfers	(1)	(2)	3	-	-
Additions	31	-	36	-	67
Charge for the year	381	350	418	-	1,149
Disposals	(15)	(315)	(374)	-	(704)
31 December 2005	**4,999**	**7,496**	**3,808**	**0**	**16,303**
Net book value 31 December 2005	**9,735**	**1,627**	**1,840**	**294**	**13,496**
Net book value 31 December 2004	**8,188**	**516**	**1,575**	**769**	**11,048**

None of the Bank's property and equipment are pledged as collateral.

	Land and Buildings	Computers	Other assets	Construction in progress	Total
Cost or valuation					
At 1 January 2004	**12,720**	**8,331**	**5,389**	**277**	**26,717**
Transfers	(22)	4	18	-	-
Additions	-	-	1	1,319	1,320
Transfers from implementation	146	440	240	(827)	(1)
Disposals	(53)	(796)	(348)	-	(1,197)
31 December 2004	**12,791**	**7,979**	**5,300**	**769**	**26,839**
Accumulated depreciation					
At 1 January 2004	**3,994**	**7,529**	**3,622**	**-**	**15,145**
Transfers	-	1	(1)	-	-
Charge for the year	616	729	444	-	1,789
Disposals	(7)	(796)	(340)	-	(1,143)
31 December 2004	**4,603**	**7,463**	**3,725**	**-**	**15,791**
Net book value 31 December 2004	**8,188**	**516**	**1,575**	**769**	**11,048**
Net book value 1 January 2004	**8,726**	**802**	**1,767**	**277**	**11,572**

23. Accrued income, other assets and deferred tax assets

in millions of SIT

	Nova KBM	
	2005	2004
Accrued interest	3,610	2,729
Accrued costs and prepayments	73	56
Interest receivables	1,124	1,046
Fees and commissions	254	224
Advance payments	41	286
Cheques	31	34
Inventory	1,044	1,186
Items in course of payment	3,243	2,917
Items in course of collection	198	197
Positive fair value of derivative financial instruments	37	14
Deferred tax assets	665	361
Other, of which	2,062	2,147
- account receivables	162	164
- other receivables	1,839	1,919
- other	61	64
Total	**12,382**	**11,197**
Impairment	(1,009)	(873)
Total	**11,373**	**10,324**

Deferred tax assets

in millions of SIT

	2005	2004
Deferred tax assets		
- from financial assets at fair value through profit or loss	40	-
- from available-for-sale financial assets	-	215
- from derivatives	8	12
- from accrued fee	617	134
Total	**665**	**361**

in millions of SIT

Movements in impairment	**2005**	**2004**
Balance at 31 December 2004	**873**	**1,077**
Opening adjustment		(27)
Increase in impairment	598	459
Decrease in impairment	(462)	(636)
Balance at 31 December 2005	**1,009**	**873**

24. Due to other banks

in millions of SIT

	2005	2004
On demand		
- Slovene Tolars	13	22
- Other currencies	2,112	413
Time deposits		
- Slovene Tolars	2,394	7,803
- Other currencies	-	-
Total	**4,519**	**8,238**

25. Due to customers

Amounts owed to customers, by type of customer — in millions of SIT

	2005		2004	
	Sight	Term	Sight	Term
Non-financial corporations	28,402	54,503	23,891	46,717
General government	3,489	12,910	3,267	9,085
Other financial institutions	543	15,079	457	22,950
Citizens	150,114	194,123	139,616	179,287
Non-residents	2,178	2,619	2,440	3,324
Non-profit institutions serving households	2,718	1,583	2,399	1,356
	187,444	**280,817**	**172,070**	**262,719**
Total	**468,261**		**434,789**	

26. Debt securities in issue

in millions of SIT

	2005	2004
Certificates of deposits	5,406	4,857
Bonds	31,907	24,836
Total	**37,313**	**29,693**

27. Other borrowed funds

in millions of SIT

	2005	2004
Banks		
- Slovene Tolars	1	1
- Other currencies	97,370	36,851
Other customers		
- Slovene Tolars	2,666	2,226
- Other currencies	10,870	4,831
Total	**110,907**	**43,909**

28. Accruals, provisions, other liabilities and deferred tax liabilities

in millions of SIT

	2005	2004
Creditors	537	565
Current taxes	1,315	1,293
Accrued interest	3,026	2,097
Liabilities to employees	344	387
Assets in course of payment	1	1
Payments received in advance	201	184
Other provisions	5,191	4,224
Cash in transit	864	701
Deferred tax liabilities (see below)	1,647	1,417
Accrued fee	2,468	945
Derivative financial instruments	30	48
Other, of which	2,711	3,113
- liabilities from interest	574	678
- liabilities from fee - accrued	467	537
- other liabilities	1,670	1,898
Total	**18,335**	**14,975**

Other includes liabilities due to payment of money, the postal orders in the national payment system, deferred income deriving from liabilities repurchased by the bank.

Deferred tax liabilities

in millions of SIT

	2005	2004
Deferred tax liabilities		
- from available-for-sale financial assets	497	1,211
- from derivatives	9	3
- from financial assets at fair value through profit or loss	773	13
- from rated creditors	368	190
Total	**1,647**	**1,417**

Other provisions

in millions of SIT

	Off balance sheet exposures	Other	Total
Balance at 31 December 2003	**3,604**	**298**	**3,902**
Opening adjustment	910	-	910
Change in provision	(743)	155	(588)
Balance at 31 December 2004	**3,771**	**453**	**4,224**
Change in provision	276	691	967
Balance at 31 December 2005	**4,047**	**1,144**	**5,191**

29. Subordinated liabilities

in millions of SIT

	Due	Currency	Interest rate	2005	2004
1. Subordinated notes	2009	EUR	6M EURIBOR+1.7%	7,187	7,192
2. Subordinated loans					6
3.Subordinated notes	2011	EUR	3M EURIBOR + 1.1%	11,979	11,987
Total				**19,166**	**19,185**

30. Commitments and contingent liabilities

a) Financial commitments and contingencies

in millions of SIT

	2005	2004
Guarantees and standby letters of credit in Slovene Tolars		
- Short-term	9,135	12,503
- Long-term	20,709	18,392
Guarantees and standby letters of credit in other currencies		
- Short-term	4,209	4,374
- Long-term	6,114	5,167
Foreign exchange documentary letters of credit		
- Short-term	2,265	1,575
- Long-term	-	17
Documentary letters of credit in Slovene Tolars		
- Short-term	-	-
- Long-term	-	-
Contingencies		
- Short-term	81,357	75,299
- Long-term	1,264	
Financial derivative instruments	78	56
Total	**125,131**	**117,383**

b) Notional amount of derivative financial instruments

in millions of SIT

	2005		
	in tolars	in foreign currency	Total
Forward contracts for hedging		813	**813**
Forward contracts for trading		4,047	**4,047**
FX Swaps	13,371	3,114	**16,485**
TOTAL	**13,371**	**7,974**	**21,345**

in millions of SIT

	2004		
	in tolars	in foreign currency	**Total**
Forward contracts for hedging	14	907	**921**
Forward contracts for trading	1,130	-	**1,130**
FX Swaps	34,292	13,905	**48,197**
TOTAL	**35,436**	**14,812**	**50,248**

31. Foreign exchange position

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.
The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Central Bank established in respect of limits on open positions. The Group seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

	EUR	USD	Other	SIT	Total
Assets					
Cash and balances with the Central Bank	1,064	119	232	11,423	12,838
Due from other banks	22,485	5,808	5,647	25,702	59,642
Financial assets at fair value through profit or loss	37,952	6	-	7,748	45,706
Loans and advances to customers	164,524	3,881	642	217,599	386,646
Available-for-sale financial assets	11,272	142	-	83,138	94,552
Investments held-to-maturity	26,097	6,151	-	43,831	76,079
Investments in associates and other investments	2,144	-	-	5,488	7,632
Investments in subsidiaries	-	-	-	5,316	5,316
Intangible assets	-	-	-	4,234	4,234
Property and equipment	-	-	-	13,496	13,496
Accrued income, other assets and deferred tax assets	2,355	153	8	8,857	11,373
Total assets	**267,893**	**16,260**	**6,529**	**426,832**	**717,514**
Liabilities					
Due to other banks	1,653	413	46	2,407	4,519
Due to customers	130,703	14,599	5,065	317,894	468,261
Debt securities in issue	-	-	-	37,313	37,313
Other borrowed funds	106,022	984	1,235	2,666	110,907
Accruals, provisions,other liabilities and deferred tax liabilities	1,184	226	19	16,906	18,335
Subordinated liabilities	19,166	-	-	-	19,166
Total liabilities	**258,728**	**16,222**	**6,365**	**377,186**	**658,501**
Total shareholders' equity	**-**	**-**	**-**	**59,013**	**59,013**
Net FX Position at 31 December 2005	9,165	38	164	(9,367)	-
Off-balance-sheet assets[1]	13,637	2,444	-	3,830	19,911
Off-balance-sheet liabilities[1]	5,530	2,444	-	11,930	19,904
Net off-balance-sheet FX position at 31 December 2005	**8,107**	**-**	**-**	**(8,100)**	**7**
TOTAL NET FX POSITION AT 31 DECEMBER 2005	**17,272**	**38**	**164**	**(17,467)**	**7**
Total assets at 31 December 2004	196,307	16,827	5,090	385,812	604,036

	EUR	USD	Other	SIT	Total
Total liabilities at 31 December 2004	185,103	16,640	5,038	344,008	550,789
	EUR	**USD**	**Other**	**SIT**	**Total**
Total shareholders' equity	**-**	**-**	**-**	**53,247**	**53,247**
Net FX position at 31 December 2004	**11,204**	**187**	**52**	**(11,443)**	**-**
Net off-balance-sheet FX position at 31 December 2004	**18,685**	**-**	**-**	**(20,034)**	**(1,349)**
TOTAL NET FX POSITION AT 31 DECEMBER 2004	**29,889**	**187**	**52**	**(31,477)**	**(1,349)**

[1]Off-balance-sheet assets and liabilities include amounts receivable and payable arising from spot and forward transactions.

32. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Group to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'maturity undefined' category. The next repricing period for each respective balance sheet category is as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and balances with the Central Bank	8,555	-	-	-	-	4,283	12,838
Due from other banks	56,963	-	-	-	792	1,887	59,642
Financial assets at fair value through profit or loss	2,905	-	-	10,347	27,507	4,947	45,706
Loans and advances to customers	317,105	15,479	33,105	18,289	2,515	153	386,646
Available-for-sale securities	84,202	-	209	6,449	3,692	-	94,552
Held-to-maturity investments	57,281	6,410	11,888	-	500	-	76,079
Investments in associates and other investments	-	-	-	-	-	7,632	7,632
Investments in subsidiaries	-	-	-	-	-	5,316	5,316
Intangible assets	-	-	-	-	-	4,234	4,234
Property and equipment						13,496	13,496
Accrued income, other assets and deferred tax assets	270	-	-	-	-	11,103	11,373
Total assets	**527,281**	**21,889**	**45,202**	**35,085**	**35,006**	**53,051**	**717,514**
Liabilities							
Due to other banks	2,055	1,126	342	685	-	311	4,519
Due to customers	381,606	50,834	31,583	2,877	219	1,142	468,261
Debt securities in issue	36,763	-	550	-	-	-	37,313
Other borrowed funds	109,886	242	517	-	-	262	110,907
Accruals, provisions,other liabilities and deferred tax liabilities	-	-	-	-	-	18,335	18,335
Subordinated liabilities	19,166	-	-	-	-	-	19,166
Total liabilities	**549,476**	**52,202**	**32,992**	**3,562**	**219**	**20,050**	**658,501**
Total shareholders' equity	**-**	**-**	**-**	**-**	**-**	**59,013**	**59,013**
On-balance-sheet interest rate sensitivity gap at 31 December 2005	**(22,195)**	**(30,313)**	**12,210**	**31,523**	**34,787**	**(26,012)**	**-**
Off-balance-sheet interest rate assets	-	-	-	-	-	868,658	868,658
Off-balance-sheet interest rate liabilities	-	-	-	-	-	868,658	868,658
Off-balance-sheet interest rate sensitivity gap at 31 December 2005	-	-	-	-	-	-	-
TOTAL INTEREST RATE SENSITIVITY GAP AT 31 DECEMBER 2005	**(22,195)**	**(30,313)**	**12,210**	**31,523**	**34,787**	**(26,012)**	**-**

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Total assets at 31 December 2004	404,256	48,287	57,532	34,128	7,928	51,905	604,036
Total liabilities at 31 December 2004	454,466	46,074	29,485	4,129	603	16,032	550,789
Total shareholders' equity	-	-	-	-	-	53,247	53,247
On-balance-sheet interest rate sensitivity gap at 31 December 2004	**(50,210)**	**2,213**	**28,047**	**29,999**	**7,325**	**(17,374)**	**-**
Off-balance-sheet interest rate sensitivity gap at 31 December 2004	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL INTEREST RATE SENSITIVITY GAP AT 31 DECEMBER 2004	**(50,210)**	**2,213**	**28,047**	**29,999**	**7,325**	**(17,374)**	**-**

Average interest rates as of 31 December 2005 and 2004

The average interest rates for December 2004 and 2005 calculated as a weighted average for each asset and liability category.

Assets	Average rate in 2005		Liabilities	Average Rate in 2005	
	SIT	Foreign currency		SIT	Foreign currency
Cash and balances with the Central Bank	1.0	-	Due to other banks	2.2	2.5
Due from other banks	4.3	3.6	Due to customers	2.4	1.2
Financial assets at fair value through profit or loss	-	3.9	Debt securities in issue	5.3	-
Loans and advances to customers	6.7	3.6			
Available-for-sale financial asset, Held-to-maturity investment	5.5	2.4			
Total assets	**6.2**	**3.2**	**Total liabilities**	**2.7**	**1.6**

Assets	Average rate in 2004		Liabilities	Average Rate in 2004	
	SIT	Foreign currency		SIT	Foreign currency
Cash and balances with the Central Bank	1.0	-	Due to other banks	4.7	2.6
Due from other banks	4.2	2.1	Due to customers	3.1	1.0
Financial assets at fair value through profit or loss	7.6	3.7	Debt securities in issue	6.8	-
Loans and advances to customers	7.8	3.4			
Available-for-sale financial asset, Held-to-maturity investment	7.1	1.5			
Total assets	**7.6**	**2.5**	**Total liabilities**	**3.5**	**1.4**

33. Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Central Bank. The table below provides an analysis of assets, liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under ‘maturity undefined’ category.

The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and balances with the Central Bank	12,838	-	-	-	-	-	12,838
Due from other banks	38,349	-	252	21,041	-	-	59,642
Financial assets at fair value through profit or loss	45,706	-	-	-	-	-	45,706
Loans and advances to customers	25,313	44,376	133,916	123,199	59,842	-	386,646
Available-for-sale securities	8,001	15,801	6,426	22,680	41,644	-	94,552
Held-to-maturity investments	13,804	6,410	12,091	18,983	24,791	-	76,079
Investments in associates and other investments	-	-	-	-	-	7,632	7,632
Investments in subsidiaries	-	-	-	-	-	5,316	5,316
Intangible assets	-	939	-	53	3,242	-	4,234
Property and equipment	-	207	85	176	13,028	-	13,496
Accrued income, other assets and deferred tax assets	6,349	1,636	1,573	1,528	287	-	11,373
Total assets	**150,360**	**69,369**	**154,343**	**187,660**	**142,834**	**12,948**	**717,514**

	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Due to other banks	3,228	1,126	8	157	-	-	4,519
Due to customers	280,987	118,450	53,867	14,142	815	-	468,261
Debt securities in issue	2,157	-	8,657	19,499	7,000	-	37,313
Other borrowed funds	171	3,055	10,295	88,202	9,184	-	110,907
Accruals, provisions,other liabilities and deferred tax liabilities	5,695	2,282	4,017	5,751	590	-	18,335
Subordinated liabilities	-	-	-	7,187	11,979	-	19,166
Total liabilities	**292,238**	**124,913**	**76,844**	**134,938**	**29,568**	**-**	**658,501**
Total shareholders' equity	**-**	**-**	**-**	**-**	**-**	**59,013**	**59,013**
On-balance-sheet liquidity gap at 31 December 2005	**(141,878)**	**(55,543)**	**77,498**	**52,722**	**113,266**	**(46,065)**	**-**
Off-balance-sheet assests[1]	133,661	214,644	202,809	174,896	142,648	-	868,658
Off-balance-sheet liabilities[1]	133,661	214,644	202,809	174,896	142,648	-	868,658
Off-balance-sheet liquidity gap at 31 December 2005	-	-	-	-	-	-	-
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2005	**(141,878)**	**(55,543)**	**77,498**	**52,722**	**113,266**	**(46,065)**	**-**
Total assets at 31 December 2004	110,686	72,283	146,763	170,028	91,794	12,482	604,036
Total liabilities at 31 December 2004	273,498	110,333	61,557	81,194	23,262	945	550,789
Total shareholders' equity	-	-	-	-	-	53,247	53,247
On-balance-sheet liquidity gap at 31 December 2004	**(162,812)**	**(38,050)**	**85,206**	**88,834**	**68,532**	**(41,710)**	**-**
Off-balance-sheet liquidity gap at 31 December 2004	-	-	-	-	-	-	-
TOTAL LIQUIDITY GAP AT 31 DECEMBER 2004	**(162,812)**	**(38,050)**	**85,206**	**88,834**	**68,532**	**(41,710)**	**-**

[1]Off-balance-sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and receivables and payables under guarantees, letters of credit and committed facilities.

34. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. All trading positions are mark to market daily and most of them are managed by the system of limitation.

The Group also applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

The daily market value at risk measure (VAR) is an estimate, with a confidence level set at 95 %, of the potential loss which might arise if the current positions were to be held unchanged for one business day. The measurement is structured so that daily losses exceeding the VAR figure should occur, on average, not more than once every sixty days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

35. Concentration of assets and liabilities

	2005		2004	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Geographic region				
Slovenia	626,875	592,883	566,425	541,133
European Union	65,299	106,928	24,841	47,115
Former Yugoslavia	10,335	3,105	4,520	2,099
Others	15,005	14,598	8,250	13,689
Total	**717,514**	**717,514**	**604,036**	**604,036**

36. Related party transactions

a) by Balance Sheet as of 31 December 2005

in millions of SIT

	Subsidiaries	**Associates**
Due from other banks	4,394	1,766
Loans and advances to customers	18,095	-
Securities available-for-sale and investments held-to-maturity	-	762
Investments in associates and subsidiares together	4,865	6,257
Due to other banks	28	-
Due to customers	1,170	1,355
Debt securities in issue	50	3,982

by Balance Sheet as of 31 December 2004

in millions of SIT

	Subsidiaries	**Associates**
Due from other banks	360	55
Loans and advances to customers	16,842	518
Securities available-for-sale and investments held-to-maturity	-	714
Investments in associates and subsidiares together	6,123	5,006
Due to other banks	14	-
Due to customers	452	1,005
Debt securities in issue	55	1,311

b) by Income Statement as of 31 December 2005

in millions of SIT

	Subsidiaries	**Associates**
Net interest income	730	(128)
Dividend income	1,026	50
Net fee and commissions income	85	1,763
Net profit from financial operations	(8)	0
Costs of services	81	0

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by Income Statement as of 31 December 2004

	Subsidiaries	**Associates**
Net interest income	538	39
Dividend income	1,532	74
Net fee and commissions income	83	52
Net profit from financial operations	64	2
Costs of services	77	51

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