Banka Koper d.d. Koper

Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2004

Koper, June 2005

Contents

GENERAL INFORMATION

1. KEY DEVELOPMENTS IN BANKA KOPER AT A GLANCE

The commercial profile and social community role of Banka Koper reflects the interweaving of a number of events and decisions, which have left a trace on its present character widely acknowledged as special and easily recognised. Versatility expected from a universal bank, as well as the openness to embrace all positive changes that the Bank has encountered during nearly half a century of existence, is deeply anchored in the domestic and international banking environment.

Whether as one-off events or processing with long-lasting effects, the most important events since the Bank's establishment have helped to channel its growth and development. Expanding across the regional border, rising to the status of a worthy partner in the former Slovenian banking system, its leading position among the banks when it came to developing modern services and distribution channels, a full scope banking licence, a new corporate image and focus on forging strategic alliances started a few years ago and completed in 2002, are the developments having far-reaching effects.

The mission – to boost the regional economy and spread across the regional borders

1955 - Regional operations of Istrska komunalna banka. The branch network starts to expand beyond the Bank’s domicile.

1961 - Komunalna banka Koper is established for the pursuit of a wider range of banking operations covering several municipalities.

1965 - The branch network grows and new operations are provided through Kreditna banka Koper - a commercial bank with a new organisation.

1971 - Crossing the regional border and closer co-operation with other banks.

Building a new Slovenian banking system and launching the first Slovenian payment card - Activa

1978 - LB Splošna banka Koper joins a new banking system under the auspices of Ljubljanska Banka – Associated Bank.

1989 - The Bank is transformed into a public limited company and establishes a subsidiary - Finor.

1992 - The Bank leaves the banking system of Ljubljanska banka and markets the first Slovenian payment card - Activa.

On its own again, qualifying for a full-scope licence and launching a new corporate image

1994 - Splošna banka Koper becomes an independent bank. The Bank of Slovenia grants it a full-scope licence to provide all kinds of banking operations in Slovenia and beyond its borders.

1996 - The Bank expands its presence to the capital of Slovenia and puts in place a new organisational structure.

1997 - There is a new registered name and a new corporate image. Banka Koper opens a branch in Maribor. A banking group is formed with M banka and the commercial network takes its share of corporate banking.

The Bank spreads across the territory of Slovenia, cements its new corporate image and takes over M banka

1998 - The Bank gets a foothold in Nova Gorica. Important projects are launched - electronic banking i-Net Banka, information system for customers, migration of payment transactions for corporate and institutional clients to commercial banks, and overhaul of the information system.

1999 - Banka Koper acquires M banka.

2000 - There is a new Management Board composed of two persons and a new internal organisational structure. The Bank's shares are listed on the Ljubljana Stock Exchange.

A new phase in the Bank's growth – opening of new areas of operations and preparation for strategic partnership

2001 - The Bank sets up the Open-Ended Mutual Pension Fund and expands the scope of its operations. Focus on further growth and development, strategic partnership perceived as a step toward this goal. Preparations start for the strategic alliance with the financial group SanPaolo IMI.

2002 - The Bank joins the financial group SanPaolo IMI who acquires the controlling share. The new ownership structure means that the Management Board gets another member and the composition of the Supervisory Board changes. At the same time, the deal to dispose of the Bank's subsidiary Finor is signed.
The expansion of the commercial network to all Slovenian regions. The migration of payment transactions for legal persons to banks is finished, and legal persons open transaction accounts for their payments. The migration of the accounts of private individuals - the so-called personal transaction accounts - start. The Bank of Slovenia grants authorisation for insurance intermediation – marketing of insurance policies.

2003 - Thanks to efficient internal procedures and adequate IT support, the Bank sets up transaction accounts for individuals without a glitch. As the last restrictions on customer borrowing in foreign currency are lifted, individuals start asking for loans denominated in foreign currency. The downward interest rate trend continues and customers turn away from the beaten track as far as saving money is concerned. More profitable but riskier forms of savings gain ground: mutual funds, shares, and other types of securities. In April, the Bank delists its shares from the Ljubljana Stock Exchange. Activa System - the foundation for the development of card business in Slovenia - continues to prosper.

2. STATEMENT OF THE PRESIDENT OF THE MANAGEMENT BOARD

Annual results of Banka Koper for 2004 go hand in hand with the continuing positive economic trends and are tangible proof of professionalism that results in a strong foothold in the Slovenian market and earnings diversification. As regards its organic growth and development, Banka Koper has expanded its network, launched new services, and modernised and upgraded business processes. So Banka Koper has opened up new possibilities for reinforcing its economic position. Sharing of know-how from and support by SanPaolo IMI Group, have provided the Bank with faster and more rational adjustment to new, although expected, tightening of business conditions experienced after Slovenia's accession to the European Union in May 2004.

The world economy was growing in 2004 at different speeds in different geographical areas. From this aspect we can be talking about the world moving in two or even three traffic lanes. To Slovenia as a country widely involved in international trade it means new marketing opportunities, while on the other hand it means the door open for competitors.

In such circumstances the quantitative indicators of the Slovenian economy exceeded expectations and again got “thumbs up” from the leading international institutions. The rate at which GDP grew last year was 4.6 per cent and since Slovenia’s economy is closely knitted with foreign economies it is yet another proof of its edge at the international scale. The balanced exchange of goods has been for a long period of time a strong foothold to maintaining relatively stable domestic currency exchange rate. The heart-warming fiscal indicators during Slovenia’s stay in ERM II give us assurance that the timeline for the adoption of the euro has been realistically planned. By axing inflation to 3.2 per cent in 2004, Slovenia made a leap toward the convergence criteria posed by the European Union, laid ground to discard the base interest rate (TOM) and consequently mitigated pressure for inflation indexation. Curbing public debt and budget deficit within the limits of convergence criteria set by the European Union, is a credible proof that Slovenia also from that aspect is in command of its macroeconomic position. As the effort required in accomplishing the set goals is stepped up, we must not lose sight of potential hazards that lurk on the way, even though favourable macroeconomic indicators make them seem rather distant.

In 2004, changes could be witnessed in Slovenia to corporate thinking about the need for substantial and faster adjustments to new realities, particularly to cost cutting and coping with ever more sophisticated services provided by some emerging economies.

The Slovenian financial market made a significant shift in 2004 as new types of products and services gained popularity. In terms of type of products and services, as well as in terms of quality and pricing, Slovenia is closing the gap with competitive markets of the European Union. Still existing distortions in certain segments have been ironed out at fast pace owing to the openness of the financial market. Despite the fast development of innovative financial products and services, there is no doubt that Slovenia’s banking system remains the backbone of the country’s financial system. In 2004, banks coped well with increased competition mostly posed by investment and mutual funds and the securities market, managed to preserve and even reinforced their economic and earnings position. There is no doubt that we have to give credit for sound performance to adequate preparations and adjustments of the banking system to the newly created situation in the open financial market. These are on-going processes since new needs keep arising. Many of them are based on the economies of scale and flexibility. In order to keep the competitive edge of banking in Slovenia, the pace at which it is adjusting to the newly created conditions has to gain momentum.

Banka Koper continued in 2004 to work on the fulfilment of its principal commercial and development goals endorsed over the past few years. The focus has been on the development and expansion of commercial activities, honing the organisational structure, re-engineering business processes, managing risks and expanding the scope of staff training for new tasks. It is conventional wisdom that people as the Bank’s most valuable asset remain the pillar of its day-today business and development.

The independent certified auditor has conducted the audit of the financial statements for 2004 and has issued an unqualified opinion on the Bank’s financial statements. By rising to 337 billion tolars, the Bank’s end-year total assets increased by 9 per cent year-on-year. On the assets side of the balance sheet, corporate and retail loans enjoyed a strong growth by rising 20 per cent and substantially exceeded the budgeted annual increase. Their share in the Bank’s total assets increased from 52 per cent to 57 per cent. The increase is mostly the result of the decision to pursue a more pro-active lending policy and to a far lesser extent more vigorous demand for financing. Re-engineering the organisational structure of commercial sectors and the expansion of the Bank’s commercial network, while being able to make a competitive credit offer, added the cutting edge to lending activities. Even though the volume of lending to the non-banking sector jumped, the Bank improved the quality of lending and preserved conservative approach to loan-loss provisioning also in 2004.

The structure of liabilities as sources of funding changed considerably in 2004. The share of cross-border sources of funding from borrowing rose. Given their longer maturity structure and more favourable interest rates, cross-border long-term deposits, arranged also in collaboration with Sanpaolo IMI, have enabled the Bank to pack more attractive products and service for customers.

The interest of investors and savers in alternative financial investments maintained momentum in 2004 with investments in securities and funds enjoying unshaken popularity. These are the processes prompted both by trimming of interest rates on deposits and the pending introduction of withholding tax levied on interest income they generate against the relatively high returns generated up to then by alternative forms of financial investments. It seems obvious that under such circumstances the public tends to accept at least for part of their savings higher risk if promised benefits are potentially attractive.

Banka Koper continued in 2004 with developing and introducing new services to complement the traditional banking services or upgrade some segments. Thus it provides a wide array of services not easily rivalled by other banks of Slovenia. For that purpose the Bank has qualified for mandatory authorisations of the central bank of Slovenia and other regulators. Leasing provided by the Bank's subsidiary Finor is the line of business of particular importance. By adopting such an approach, the Bank wanted to strengthen a basis for expansion and deepening of its business relationships with counterparties. The Bank was responding to the pressures to reduce interest margin and fees also by phasing in charge directly on end users for certain services and in that way increased the share of non-interest income. The experience gained by Banka Koper during that period is encouraging but at the same time warn us that judgement and graduality are required each time.

Additional requirements for the modernisation of business processes, particularly aiming at curbing operating costs, risk control, launch of new services and new content for reporting purposes linked to mandatory requirements of the European Union commanded in 2004 new organisational solutions, even more intense modernisation of technological processes, and additional investment in information technology. This has also served the Bank to sharpen its competitive edge.

Banka Koper earned 6 billion tolars in pre-tax profit in 2004, or 15 per cent above the budgeted figure. A portion of the increase arises from capital gains made on securities trading on the one hand and spending discipline that has slowed down the increase in operating costs. The realised profit maintains the hefty rate of return on investment the Bank has been generating for a number of years.

The performance of Banka Koper in 2004 gives it a good pole position for the year 2005. In the light of the encouraging economic forecasts feared by many to be too optimistic, the Bank's operations will be also deeply affected by the planned introduction of the euro at the beginning of 2007. Banka Koper will continue in 2005 with the activities aimed at reinforcing its market position, ensuring that its operations are conducted with prudence, and cost control. Alongside these ongoing tasks, a special emphasis in the new financial year will be also on the implementation of the new organisational structure and carrying out priority tasks in the field of information technology. It has all been incorporated into the Bank's business policy for 2005 and in the medium-term development programme covering the period 2003-2006. In both documents the keynote role is struck by synergies created within the SanPaolo IMI Group as additional advantage of Banka Koper when it comes to implementing the endorsed business and development policy.

As seen over the past years, Banka Koper has restated its corporate and community role by participating in the events that go well beyond what is considered to be strictly business. By acting as a sponsor and donator it is eager to give comprehensive support to the area in which it operates.

We are aware that the going will still be rough as the economies of Slovenia's main trading partners are fighting headwinds, but we are also confident that the Bank is well-poised for sound performance also in 2005 – the year in which the Bank is celebrating its 50th anniversary.

3. STATEMENT OF THE SUPERVISORY BOARD

In accordance with Article 256, Para 3 of the Companies Act (ZGD), the Management Board of Banka Koper d.d. has drawn up and sent to the members of the Supervisory Board the following documents for review and approval:

- Audited Annual Report for the Financial Year 2004,
- Audit Report drawn up by the certified auditor PricewaterhouseCoopers, and
- A proposal for the appropriation of profit.

Pursuant to the provisions laid down in Article 274 a of the Companies Act, the Supervisory Board has examined the received documents and hereby presents its findings to the Annual General Meeting of Shareholders of Banka Koper d.d. as follows

R E P O R T

1. The way and scope of verification of the management of Banka Koper during the financial year 2004

In the course of the financial year 2004, the Supervisory Board of Banka Koper d.d. met at five regular sessions to address the issues regarding the Bank's development, implementation of the business policy and current results posted by the Bank, annual and other reports of the Management Board, as well as other important issues relevant to the Bank's business. At three sessions held by correspondence, the Supervisory Board decided in relation to approvals for business deals where due to being in excess of exposure cap determined for a client, the Bank's Supervisory Board has to grant its approval. The papers for the sessions were sent to the members of the Supervisory Board in compliance with the Rules of Procedures for the Activities of the Supervisory Board and functions were discharged in line with the aforementioned act.

The Supervisory Board performed its duties in accordance with its principal function, i.e. supervision of the Bank's business run by the Management Board and the Bank's performance in accordance with its powers and mainly engaged in the following areas:

- monitoring and assessing on a regular basis the compliance with the Bank's business policy for 2004 and the fulfilment of the goals set out within the policy framework,
- examining and approving the Annual Report of the Internal Audit Department for 2003,
- verifying the activities and reviewing the findings of the Internal Audit Department during the current year,
- examining and approving the Bank's business policy for the financial year 2004,
- examining and approving the strategic orientations of Banka Koper for the period 2005-2010,
- examining and approving the business plan of Banka Koper for the year 2005,
- examining and approving the plan of internal audit assignments for the year 2004,
- addressing other issues in accordance with powers conferred upon it under law and the Articles of Association.

The Supervisory Board assesses that it had at its disposal timely and adequate data, reports and information, as well as additional clarifications and explanations when required at sessions it held, so as to be able to monitor throughout the financial year the Bank's operations with due attention, as well as the internal audit function and supervise the running of the Bank. A more comprehensive report on operations and results achieved in the year 2004 determined on the basis of unaudited financial statements was duly examined by the Supervisory Board at the beginning of February this year.

The Supervisory Board hereby states that all its members have examined carefully the Annual Report, the Report of the Certified Auditor, Financial Statements, Notes to the Financial Statements, and other notes presented therein. Furthermore, the Supervisory Board assesses that the Annual Report of the Management Board gives a true and fair view of the business events and provide comprehensive information as to operations during the past financial year, and thus complements and expands the information already presented to the Supervisory Board in the course of the financial year. The set goals were achieved despite deteriorating conditions in the financial markets. The Bank has safeguarded a high level of operational safety and effectively manages risks it is exposed to in the course of its day-to-day business. Therefore, the Supervisory Board has assessed that the Bank was successfully run during the period under review.

The Supervisory Board also assessed that the work of the Internal Audit Department was well planned and effective, since it has become an indispensable element for the activities of the Management Board and an aid to the Supervisory Board when forming opinions and making assessments.

2. The position with regard to the Auditor's Report

The Supervisory Board hereby concludes that the external auditor has expressed in the Report the unqualified opinion, i.e. no-objection opinion in relation to the financial statements prepared by Banka Koper d.d., thus giving another proof for the findings of the Supervisory Board. Therefore, the Supervisory Board hereby adopts the following

P o s i t i o n:

that the Supervisory Board has no objection to the Report of PricewaterhouseCoopers, Chartered Accountants and Registered Auditors.

3. Endorsement of the Annual Report for the financial year 2004

On the basis of the insight into operations carried out by the Bank in the course of the financial year and after due examination of the audited Annual Report and the unqualified opinion stated in the external auditor's report, the Supervisory Board hereby

approves and adopts

Annual Report of Banka Koper d.d. for the Financial Year 2004.

4. Endorsement of the proposal for profit appropriation

The members of the Supervisory Board have examined the proposals for the appropriation of profit to be finally validated by the Annual General Meeting. By taking into account the Bank's goals for the year 2005 and beyond, the Bank will have to strengthen its capital in order to maintain adequate capital adequacy and sustain the planned volume of its operations. The proposal made by the Management Board as to the profit distribution is oriented towards bracing the Bank's reserves while earmarking the adequate payment of dividends and the retained profit to be carried forward. After due examination, the Supervisory Board hereby gives unconditional

a p p r o v a l

To the proposal of the Management Board as to the balance sheet profit appropriation.

Done at Koper, 22. April 2005

Chairman of the Supervisory Board

Giuseppe Cuccurese

Supervisory Board

The composition of the Supervisory Board of Banka Koper did not change in 2004. The corporate governance functions are discharged by the representatives of the SanPaolo IMI Group, the majority shareholder, and the representatives of Istrabenz, Luka Koper and Intereuropa.

Giuseppe Cuccurese	Chairman SanPaolo IMI S.p.a.
Janko Kosmina	Vice Chairman Istrabenz Koper d.d.
Flavio Gianetti	Member SanPaolo IMI S.p.a.
Paolo Haim	Member SanPaolo IMI S.p.a.
Carlo Moretti	Member SanPaolo IMI S.p.a.
Marjan Babič	Member Luka Koper d.d.
Jožef Kranjc	Member Intereuropa d.d.

Management

In 2004, at the helm of Banka Koper there was the Management Board appointed in 2002 composed of three members: Mr. Vojko Čok in the capacity as President, Mr. Corrado Casalino as the Deputy President, and Mr. Igor Kragelj as Member of the Management Board.

Vojko Čok	President
Corrado Casalino	Deputy President
Igor Kragelj	Member of the Management Board

Advisers to the Management Board

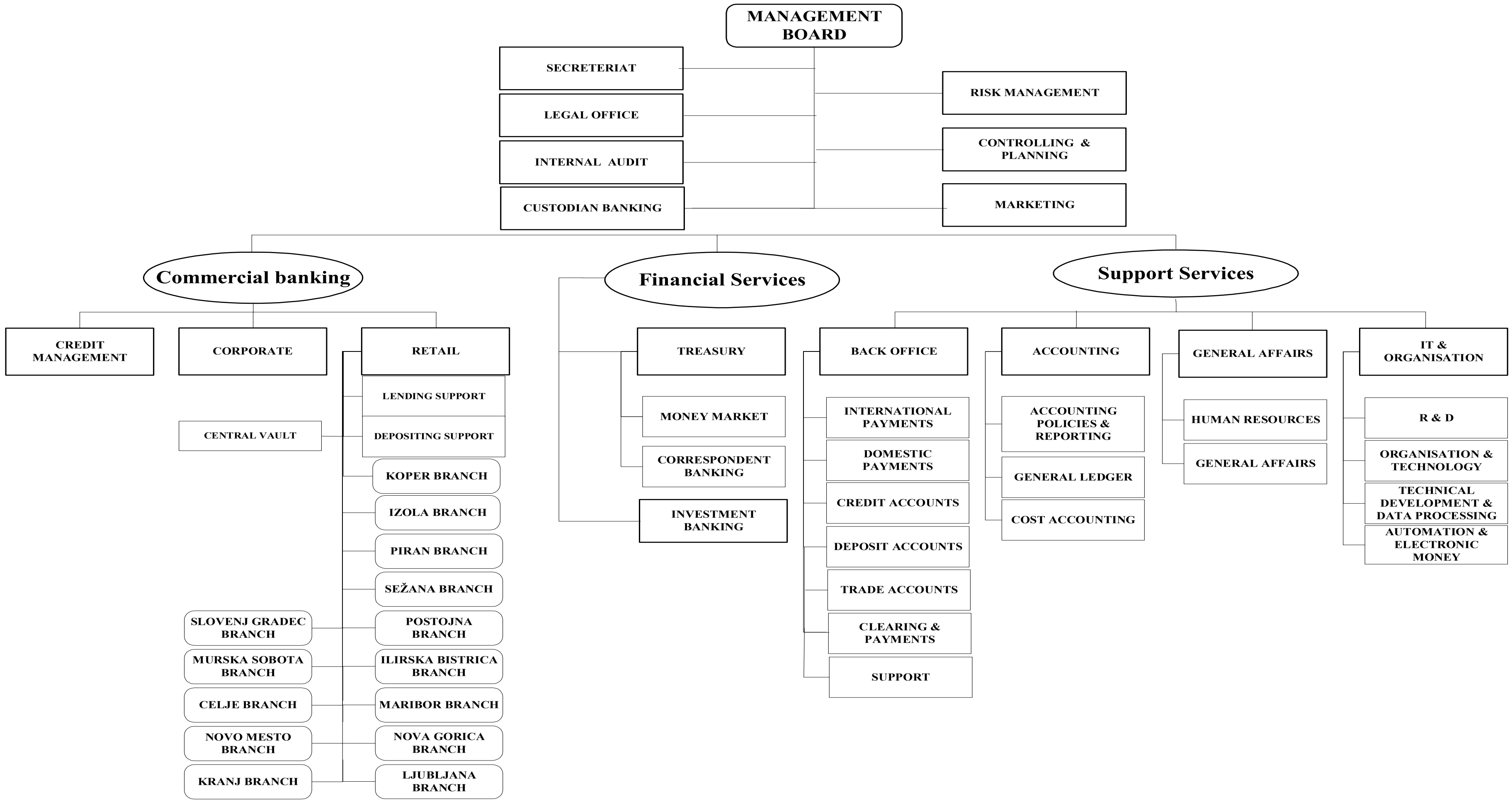
Aleksander Lozej	Corporate affairs
Vilijem Semolič	Compliance function

Management – directors of divisions and heads of departments

Boris Bjelica	Back-Office
Tatjana Faust	Treasury
Rado Grdina	Information Technology and Organisation
Dario Radešič	Commercial Network
Vid Štemberger	General Affairs
Ida Tomišič	Corporate Banking
Mariza Virágh	Accounting
Igor Bahčič	Investment Banking
Aleksander Milostnik	Internal Audit
Franc Ohnjec	Marketing
Branko Rojc	Custody function
Maja Soban	Legal Affairs
Luciano Vierin	Credit Management
Irena Kodra	Planning and Control
Ladi Škrinjar	Risk Management

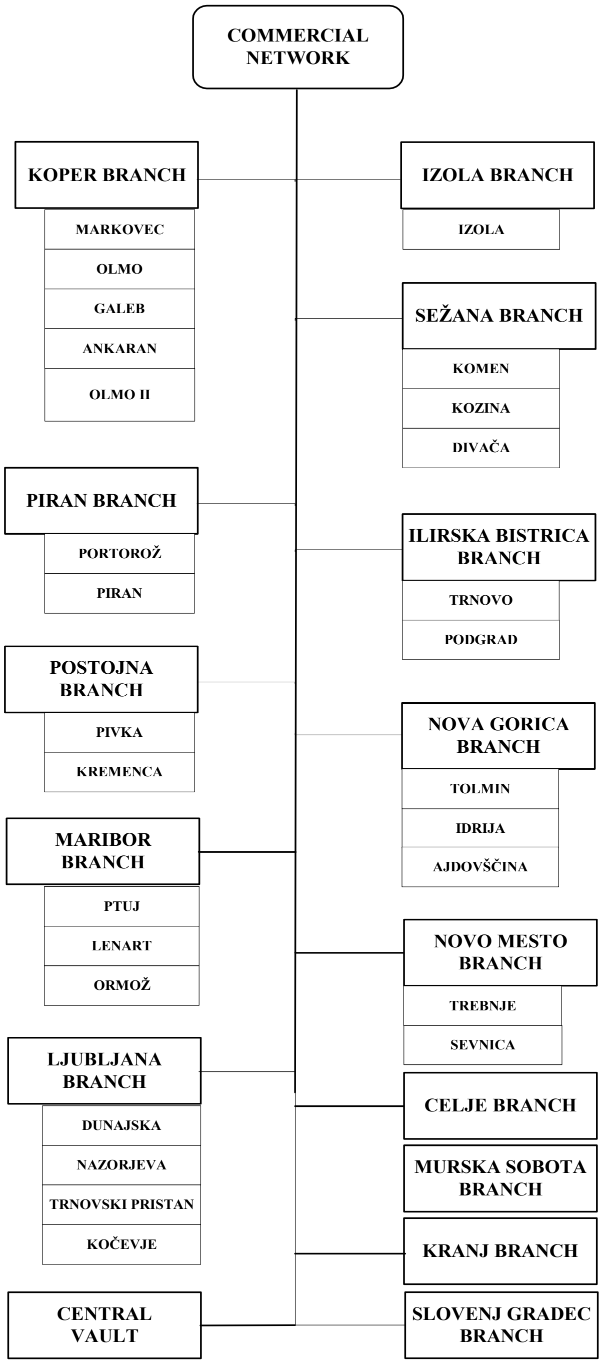
4.

BANKA KOPER d.d. - ORGANISATION CHART



5.

BRANCH NETWORK OF BANKA KOPER



6. GENERAL ECONOMIC AND BANKING ENVIRONMENT

Slovenia's accession to the European Union in May 2004 was in the limelight as the landmark event for our country as its impact will shape the times to come. Another significant step in the direction of full-scope EU integration was made on 28th June when Slovenia joined "the waiting room for the euro" – ERM2 and set the exchange rate for the two years peg to the euro.

The deviations from the central exchange rate were negligible in Slovenia. In July the euro strengthened by merely 0.3 percent, in August it gained 0.1 percent, in September and October it remained unchanged. During the year under review, the euro was worth on average 239.83 tolars or 1.8 percent more than a year earlier. The US dollar averaged 192.38 tolars in 2004 or 7.1 percent less than a year earlier.

If we compare the key economic indicators for Slovenia and the EU, the general favourable trends enjoyed by the domestic economy clearly show that Slovenia is closing the gap on the old EU Member States. Nevertheless, curbing inflation remained a key task. Prices of oil and other commodities have always been a major threat to inflation control. The fact that Slovenia's gross domestic product grew at the rate of 4.6 percent leaving behind the average GDP growth for the EU of 2.4 percent inspires confidence for the country's medium-term economic prosperity.

7. AN OVERVIEW OF THE BANK'S OPERATIONS IN THE YEAR 2004

Lending operations

In 2004, lending to the non-banking sector increased thanks to overall economic and banking developments such as: favourable liquidity, lower appreciation of the euro, curtailed domestic inflation rate and falling interest rates.

Gross lending to the non-banking sector increased by 18 percent i.e. by 31,663 million tolars in comparison with figures posted for 2003. The increase in lending in 2004 was by one percentage points higher than the growth posted in 2003, with interest margins lowering to levels comparable to banking industries operating in Slovenia's neighbouring EU Countries.

In terms of the ***maturity structure***, short-term lending prevailed as it accounted for 54 percent of all loans granted to non-banking customers.

As regards the ***currency structure***, the outstanding loans, at year end, denominated in domestic currency were still equal to 70 percent of the total, despite the significant increase (59 percent) of the loans denominated in foreign currency.

In terms of geographical segment, the Bank's lending operations still rely heavily on the Slovenian territory as merely 2 percent of all loans to the non-banking sector were granted to non-residents.

Loans and advances to ***legal persons*** amounted to 154,051 million tolars i.e. 74 percent and although it makes up the biggest portion of loans extended to the non-banking sector, with an increase of 19 percent.

Lending to ***households*** comprises lending to private individuals and small entrepreneur and at the end of 2004 topped 53,481 million tolars or 26 percent of all loans to the non-banking sector. If compared to a year earlier, the loans granted to households rose by 6,752 million tolars i.e. enjoyed an 14 percent rise. Also in 2004, households mostly borrowed on a long-term and in domestic currency, while the portion of borrowing denominated in foreign currency was practically negligible. The rise in the loans granted to individuals was boosted mainly by trimming interest rates and residential property development that has gained momentum (housing loans surged by 24 percent).

In line with the Bank's business strategy, particular attention was paid also in 2004 to prudential standards on risk taking. Commitment to safe and sound business means that the Bank was scoring customers' creditworthiness and consistently observed the credit assessments when earmarking mandatory specific provisions.

Deposits

The downward trend experienced by interest rates had a beneficial effect on increasing the volume of lending, but its effect on deposit gathering was negative. Deposits placed by the non-banking sector rose by 18,153 million tolars (8.5 percentage growth) in comparison with the end of 2003. The relatively modest non-banking sector deposits growth reflected the falling interest rates and consequently the turning to alternative types of savings in more profitable although potentially riskier types of investments such as mutual funds, shares, bonds issued by major companies and other securities.

Deposits placed by legal persons as at 31 December 2004 amounted to 56,312 million tolars, with an increase of 18 percent, mostly in tolars and with short-term maturity.

Deposits placed by households comprise deposits from individuals and small entrepreneurs and at the end of 2004 totalled 173,837 million tolars, or 6 percent more year-on-year, which we consider – under the current circumstances – a favourable and encouraging result.

Open-Ended Mutual Pension Fund of Banka Koper (OVPS)

As at 31 December 2004, the OVPS posted total assets in the amount of 1,980 million tolars, i.e. by 73 percent more year-on-year. The total number of insured persons increased by 15 percent, and amounted to 4,457 million tolars. A breakdown of the number of insured persons shows 4,120 persons covered by collective pension insurance and 337 individuals. The number of companies – signatories of the collective scheme rose from 52 to 72.

Net asset value increased in 2004 by 10.41 percent, and it is also the Fund's net annual yield. The average monthly yield amounted to 0.87 percent and is among the highest monthly average yields generated by all providers of supplementary pension insurance in Slovenia.

The yield exceeds the guaranteed yield under the pension scheme. This means that the Bank as a founder and administrator of the Fund has not been exposed to liabilities arising from the payment of the difference to the unrealised guaranteed yield.

Intermediation in insurance policies and mutual funds marketing

Banka Koper in 2004 continued with the marketing of bankassurance products of Adriatic insurance company through the branches of the Bank. Those products are related to housing and other credit products provided to the Bank.

Furthermore, the Bank in 2004 expanded its offer by adding the marketing of mutual funds. As at the year end the Bank was marketing the funds of DZU Primorski skladi, KD Investments, Pomurska družba, Medvešek Pušnik, Krekova družba and Nacionalna finančna družba.

Custody services

Having obtained the authorisation from the Bank of Slovenia to provide custody services, Banka Koper has started with the marketing of custody services to fund management companies.

In 2004, Banka Koper subject to a prior approval of the Securities Market Agency signed contracts for the provision of custody services for eight investment funds.

In addition, the Bank signed in 2004 the contracts on the provision of custody services also with other management companies, but it will start to discharge the function of custody once the authorisation procedure has been completed by the Securities Market Agency. The said services are expected to get the green light during 2005.

Marketing activities, corporate and social responsibility

Believing that it has a responsibility towards the society of the Coastal and Karst region in which it conducts greater part of its business, the Bank co-organised a number of corporate events. Highlights included Primorski forum, Kraški forum and the award to the fastest-growing company in the region – the Gazelle. Similar corporate events were delivered through regional chambers of commerce and industry and the regional chambers for small businesses and crafts, as well as the Small Business Promotional Centre with the aim to give impetus to the sale of specific services and products (payment transactions, credit arrangements, etc.).

Interbank operations

Interbank operations in 2004 were marked by a number of amendments and modifications to relative legislation. The Bank of Slovenia amended the regulation that stipulates the minimum liquidity ratio to be maintained by banks. The portion of assets the banks are required to maintain in highly liquid foreign currency instruments was reduced from 80 percent to 70 percent of the foreign currency liabilities, and the portion of Bank of Slovenia bills denominated in foreign currency the banks are required to subscribe to dropped from 45 percent to 35 percent.

Securities trading

The Bank's portfolio containing investment securities and securities available for trading accounted for more than a quarter (28.3 percent) of all assets and in comparison with 2003 declined by 13,437 million tolars.

By Slovenia's full-fledged membership of the European Union, the Bank started to trade also in bonds issued by cross-border banks having adequate rating.

In 2004, the Bank started to offer *cross-border stock-broking service*. Through its Sanpaolo Bank S.A. Luxembourg, the Bank has access to organized foreign markets in Europe, the USA and Asia.

Equity investments

The Bank obtained the larger portion (76 percent) of investments in equity capital during the past years as a result of debt-for-equity swaps. As set out and the Bank's business policy, the activities aimed at disposing of such equity holdings continued throughout 2004.

In order to be able to provide leasing services to its customer base, the Bank bought the leasing operation of Finor, which is now a wholly owned subsidiary.

Derivative-related transactions

The Bank continued in 2004 to provide the standard array of derivative products to customers for interest and currency risk management purposes. In 2004 interest for currency swaps increased.

Payment card business

It was 12 years ago that Banka Koper issued the first Slovenian payment card Activa. The domestic Activa card was soon joined by international credit and debit cards MasterCard and Visa International. The growth of Activa has attracted other banks leading to the creation of one of the strongest card systems in Slovenia with eight banks under its umbrella. In addition to Banka Koper, the Activa system includes Banka Celje, Gorenjska banka, Raiffeisen Krekova banka, Nova KBM, Poštna banka Slovenije, Deželna banka Slovenije and Volksbank – Ljudska banka. As Volksbank – Ljudska banka joined the system in 2004, we expect a surge in the number of cards to be issued in 2005.

Card operations in Activa system

At the end of 2004, over one million payment cards were in circulation within the framework of the Activa system. As for the structure of cards, the debit card Activa – Maestro accounted for an 82 percent portion thanks to the fact that it enables shopping at points of sale and POS terminals in Slovenia and abroad. The card is accepted at all tellers' windows of the Post Office of Slovenia, all toll stations of DARS in Slovenia, parking systems, ATMs, in banks, e-banking and also at administrative units of the Republic of Slovenia.

Over the past twelve years, the Activa system has built a network composed of POS-terminals and points of sale where the cards Activa, Eurocard/MasterCard, Visa, Maestro and Visa-Electron are accepted. At the end of 2004, the Activa system infrastructure boasted 21,756 points of sale, which means 9 percent more than at the end of 2003, as well as 11,078 POS terminals i.e. 7 percent more year-on-year.

Turnover of Activa cards

The turnover and transactions executed using Activa cards prove that bank customers gladly reach out for modern distribution channels and using "plastic money" is one of them. The Activa card turnover reached 300 billion tolars in 2004 and exceeded by 17 percent the turnover in 2003. Nearly 43 million of card-related transactions means a 13 percent rise in comparison with a year earlier.

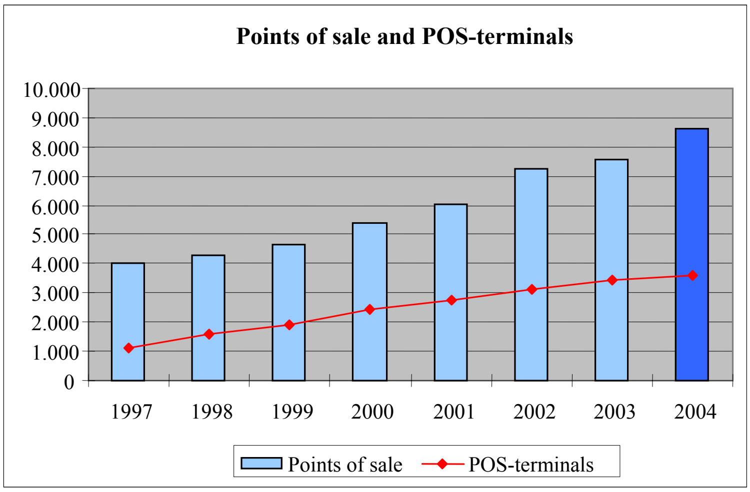
The Activa system has always been fast to respond to new market demands and to concerns raised in relation to safety of card transactions. Banka Koper provides for the Activa system comprehensive surveillance, timely detection and prevention of card abuse in Slovenia and across its borders; hence in 2004 the Bank started to install the PIN pads on the POS network and arrived at 70 percent of penetration.

The high-profile moves of the Activa system have been made in the area of smart card technology. In 2004, Banka Koper obtained all formal, material and technical certificates and started to replace the cards with a magnetic strip Activa Maestro and Activa MasterCard with smart cards. The new cards are described as multifunctional and featuring multiple applications. In the early stage they will provide for secure Internet operations in addition to standard applications, and later on other functions will be added.

Card operations in Banka Koper

By the end of 2004, 223,740 cards were issued in Banka Koper or 1.6 percent more than at the end of 2003. The number of POS terminals in 2004 rose by 5 percent and at the end of the year totalled 3,586. At 8,602 points of sale using POS terminals slightly less than 12 million transactions were carried out in 2004 showing a 9 percent rise year-on-year.

Committed to cater to the needs of legal persons and small entrepreneurs, the Bank completed successfully at the end of 2004 the development of a new card product – bank business card Activa/Visa Business Electron. In 2004, the Bank as the acquirer of Visa cards started to conclude contracts with the points of sale for Visa cards.



Domestic payment transactions

Tolar payments carried out by the Bank for its customers use the RTGS system (real-time gross settlement) and SPMV (small value payment system). In 2004, the Bank carried out 4.8 million transactions or by 3 percent more than in 2003.

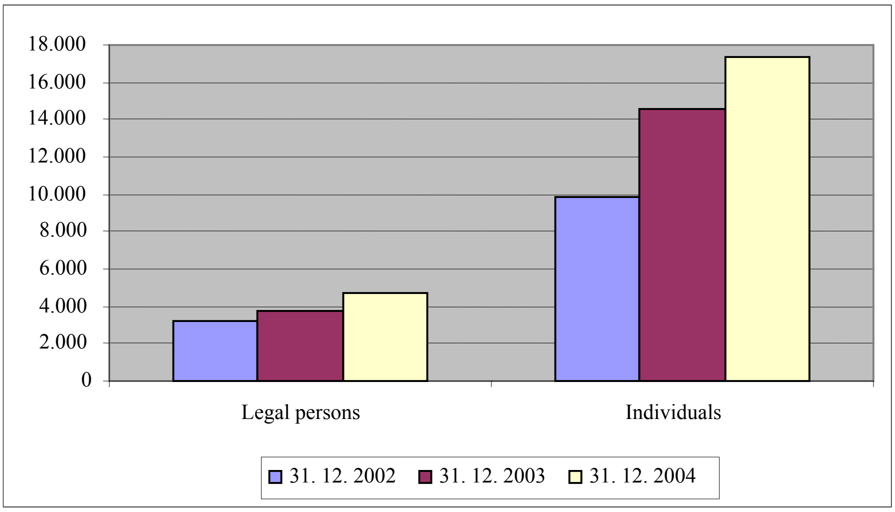
The aggregate value volume of tolar payment transactions in 2004 reached 3,035 billion tolars i.e. 3 percent more than a year earlier.

Banka Koper achieved in the Republic of Slovenia in 2004 in the area of tolar payment transactions (outflows) a 5.4 percent market share by the number of transactions and a 4.0 percent market share by value.

The figures referring to the area of payment transactions in Banka Koper for 2004 are strong and demonstrate that the forecasts about the significance of electronic payment transactions for the Bank's operations have been correct. As regards the popularity of payment transactions carried out via electronic channels with legal persons, e-banking accounted for 90 percent of value and 75 percent of physical volume of payments. Individuals used the i-Net Bank for outgoing payments adding up to 16 percent by value and 43 percent by physical volume of payment transactions.

At the end of 2004, 22,045 customers of Banka Koper used The Business i-Net bank. In 2004, the Bank saw the number of users rising 19 percent among natural persons and by as much as 26 percent among legal persons.

The number of users of The I-Net Bank

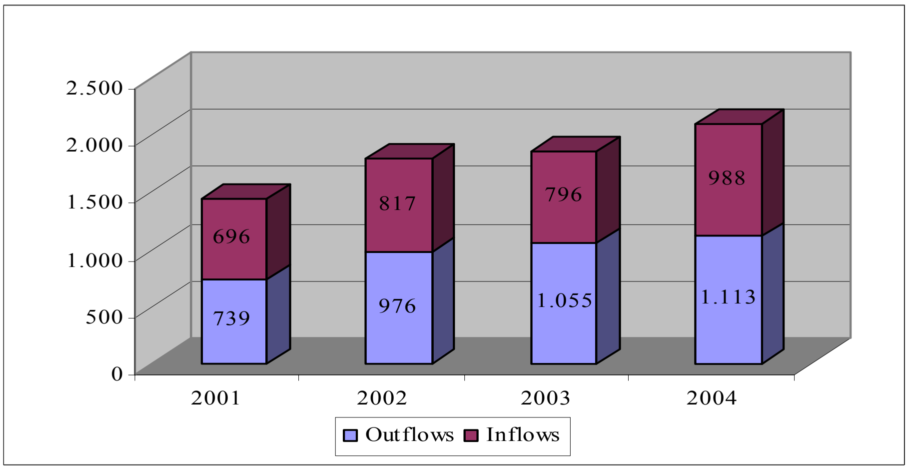


International payment transactions

In line with the declared purpose of the European Payments Council to support and promote the creation of the Single Euro Payments Area (SEPA), Banka Koper, as an indirect participant through the single entry point of SanPaolo IMI, joined the Euro Banking Association (EBA) clearing system STEP2 for the small-value payments system (retail payments: up to 12,500 euros). The single entry point enables the Bank to gain access also to other EU-payment systems STEP1, EURO1, BIREL, RTGS+ and TARGET. In 2005, the Bank will through the Bank of Slovenia join directly the settlement system managed by the European Central Bank TARGET, so all clearing banks - members of the European Union, will be accessible in real time.

International payment transactions in 2004 amounted to 2,101 million euros, which means a 14 percent increase in comparison with 2003. Banka Koper made more outgoing than incoming payments and outflows accounted for 53 percent and inflows accounted for 47 percent of aggregate international payment transactions.

International payments in millions of euros



The natural volume measured by the number of transactions, in 2004 reached 140,122 transactions, and in comparison with 2003 gained 12 percent.

Cash management

During the time when legal entities enter into all sorts of corporate marriages within the territory of the respective home country and beyond its national borders, Banka Koper has offered a new product - *Cash Management* - in effort to deliver to its customers a tool for distance account management. Unlike traditional international transfers of funds, the new product enables connecting parent companies with their subsidiaries in Slovenia and abroad, and management of funds in the accounts with the aim to concentrate and distribute funds and eventually achieve higher synergy effects.

During the first six months of the year under review, the product for the domestic environment (domestic cash pooling) was put in place as a platform for parent companies to manage transaction accounts of their subsidiaries.

In November 2004, Banka Koper became an associated member of the IBOS Association, an international banking alliance that provides corporate customers with international cash management solutions coupling local services with multi-country cash management arrangements using the IBOS network. The offering is brought to the corporate customer via a major local member bank. Banka Koper has an exclusive right for the territory of the Republic of Slovenia.

Liaisoning with rating companies

Strong regional presence, adequate profitability, asset quality and the positive effects Banka Koper has been experiencing from its majority shareholder SanPaolo IMI, has been confirmed once again in ratings awarded by international agencies.

International ratings awarded to Banka Koper:

Rating agency	Long-term rating	Short-term rating
FITCH	BBB+	F2
CAPITAL INTELLIGENCE	BBB	A2

The international rating agency Fitch Ratings London affirmed for 2004 the credit ratings for Banka Koper and namely the long-term rating BBB+ and the short-term rating F2. The stand-alone rating and the rating for external support have been affirmed: C and 3. The outlook for the long-term credit rating remains stable.

Capital Intelligence upgraded Banka Koper and namely the short-term foreign currency rating from A3 to A2 and support rating from 3 to 2. Long-term foreign currency rating (BBB), financial strength rating (BBB) and the outlook for the future (stable outlook) have remained unchanged.

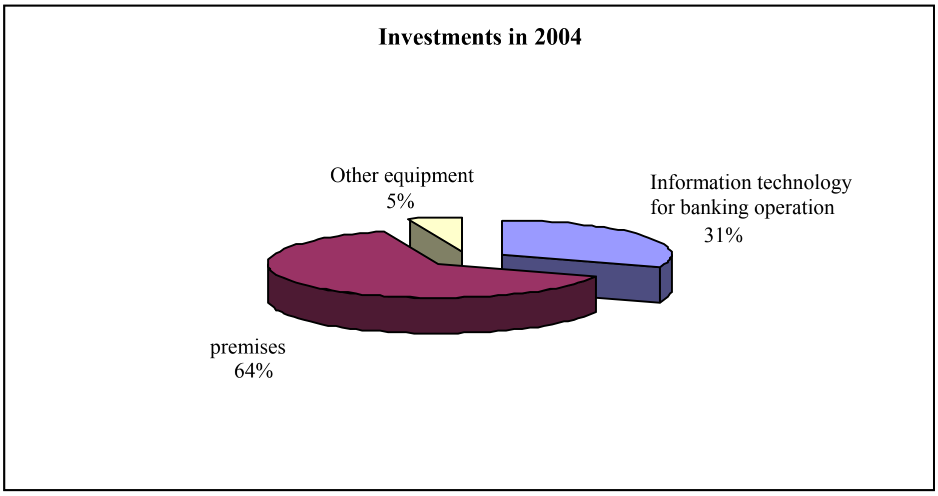
8. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

8.1. Investments in fixed assets

The Bank channelled the bulk of investments – 1,380 million tolars i.e. 64 percent of all investments of 2,163 million tollars, in ***the expansion of the branch network and refurbishment of premises***. In 2004, Banka Koper opened a branch in Slovenj Gradec, completed the renovation of the Koper Main Branch which started in 2003, and refurbished smaller branches at Lenart, on Dunajska Street in Ljubljana, and Markovec in Koper. The refurbishment of the headquarters at 14 Pristaniška Street in Koper continued. The entire building is scheduled for completion in 2005.

In 2004, the Bank allocated for ***the hardware and software for banking operations*** the amount of 683 million tolars i.e. 31 percent of all investments. Ever-tighter demands regarding security of card-related transactions and the activities for the transition to the chip technology have forced the Bank to make ever-increasing investments in card operations. Investments in software and hardware, the development of The Teller's Window (*Bančno okence*), and investments in ATMs and so-called information kiosks, were mostly driven by the need to replace equipment as planned for the information system upgrade.

For ***other equipment***, Banka Koper in 2004 allocated 100 million tolars i.e. 5 percent of all investments. The modernisation of the rolling stock and security devices and vault equipment accounted for most of the item.



Information and technological development

Ongoing adjustment of banking operations to the requirements of the environment has driven Banka Koper to embark on a host of projects in the area of the development of information systems, of which the following are considered to be of particular importance:

- ***Support to financial market operations***
The Bank adopted the modern risk front-office system Reuters Kondor - used by most European and world banks for operations conducted in their domestic and international financial markets.

- ***Electronic archives***
Comprehensive electronic archiving of documents was implemented across the Bank's business.

- ***Payments systems***
Due to the harmonisation of the payments systems to the European payments system, the Bank has developed a new IT platform for cross-border payments services and it will be brought into production in 2005.

- ***Data warehouse***

  Within the framework of the convergence with the requirements laid down in the banking legislation promulgated under the New Capital Accord, a model of data warehouse was set up to pool data sources from individual IT applications in the Bank. The data warehouse was used for the first time to compile data for reporting to the European Central Bank.

- ***Activa System***

  Under the new payment transactions authorisation system all procedures were completed for achieving compliance of cards and the POS system with the international security standard, in accordance with the requirements of the systems MasterCard and Visa.

  As regards the computer infrastructure, subsequent amendments were made to the equipment for continuous operations, modernisation of the computer network to step up traffic and equipment to provide for the connection of additional security mechanisms.

8.2. Organic Growth

Human resources

At the end of 2004, Banka Koper had 791-strong staff or 14 employees more than at the end of 2003.

The staff turnover rate in 2004 was 5.2 percent – 34 employees left the Bank and 48 people were hired.

The average age of an employee of Banka Koper is 40.6 years. The aggregate average service is 18.2 years, of which 12.6 years with Banka Koper.

Professional qualifications are an asset for the Bank as clearly ackowledged in the Bank's business plan for 2004 and the figure of 1685 attendants of education/training forms is a proof that care for staff is not only "lip service". With 53 percent of staff attending in-house training as opposed to 14 percent of staff attending training delivered by outsourced experts, it was clearly ahead of seminars, courses and workshops organised by banking and other institutes. 9 percent of staff went abroad to get knowledge and experience. The aggregate number of hours the Bank's employees spent in 2004 was 19,949 educational hours attending 245 different forms of education/training.

In line with the tradition, the Bank signed contract for scholarship grants with 11 employees in the academic year 2004/05. At the end of the year under review, there were 44 employees studying part-time (university-degree level and masters degree). In 2004, 5 employees successfully completed the studies.

Banka Koper d.d. was ranked in 2004 one of top ten Slovenian companies in the area of education management. The main criteria for the award was the portion of the budget for education with regard to total earnings, the share of staff included in education and professional training, the average number of hours dedicated to education and training per employee, the share of internal lecturers in proportion to the headcount, and the measurement of the quality of the executed educational/training programme.

8.3. Internal audit

The Internal Audit Department is an autonomous unit separated from other organisational units of the Bank and is directly accountable to the Bank's Management and Supervisory Boards. It is an independent, objective control and consulting unit where its advice is provided to the Management Board and management at all levels with regard to safeguarding the Bank's compliance with the established rules. Furthermore, it assists the Bank in reconciling its objectives with the best banking practice standards.

The tasks of internal audit in 2004 were discharged by six internal auditors. Reviews in the of information technology area internal audit were performed by outsourced auditors along the lines of professional principles and internal audit standards and the code of ethics and professional conduct of internal auditing.

The internal audit reviews conducted in 2004 revealed no major irregularities and deficiencies likely to jeopardise the Bank's business, i.e. its development. Overall, the volume of internal controls was evaluated as adequate. The verification of the effectiveness of the internal controls system function showed that the internal controls system in the organisational units in the reviewed areas was adequate.

The Internal Audit Department gave prominence to becoming familiar with the control environment, establishing the existence, i.e. adequacy of incorporated application and management controls, verification of compliance of operations with internal and external regulations, evaluation of risk management policies and practice, and the implementation of recommendations. Based on sound knowledge of the controlling environment, the description of internal controls and risk management practice, it verified whether internal controls are effective, it identified deviations from standards and contractual provisions, and assessed the professional competence. Based on these findings, situations were accessed and proposals made in the form of recommendations to correct the identified irregularities, for streamlining the business, for the management of various types of risk, and for improving the effectiveness of the internal controls system for the audited areas.

The Internal Audit Department keeps the Management Board and the responsible persons of the audited units posted on the findings of internal audits, and presents its reports to the Supervisory Board on a quarterly basis.

In addition to internal auditing, liaisoning with the independent auditors, providing clarifications to the Bank of Slovenia and the participation in working groups within the Bank, the Internal Audit Department has been providing extensive advising.

9. POSITIONING BUSINESS FOR GROWTH IN 2005

What distinguishes Banka Koper from other banks is its deep roots in its domicile region coupled with a well-branched network reaching every corner of Slovenia. By cementing the present position the Bank will have a springboard to broaden its customer base and extend the reach of its business into new market segments and exploit organic growth opportunities. The Bank's technology roadmap and attention paid to the creation of intellectual capital as its wealth in the Information Age are the confirmation of its commitment to excellence.

The Bank's strategy is to continue to provide a universal offer and maintain its universal character. Sustainable growth and development remain at the top of the Bank's agenda; hence effort will focus in 2005 on the following:

1. Market share enhancement;
2. Adding new products and services to the Bank's offer;
3. Disposal of equity holdings - divestiture.

The Bank's roadmap contains the following milestones:

- **Taking customer service to new level;**
- **Pro-active management of credit and other risks inherent in banking business;**
- **Further development of technical support;**
- **Intellectual capital development;**
- **Re-designing the organisational structure.**

The Bank is on a good position to pursue its growth strategy and changes to market structures and customer requirements are creating openings of which advantage can be taken. On the other hand, the stiff competition in the market and the relatively low earnings generation capability of new wealth management products in the early marketing stage, might put the profitability ratios under pressure.

The centre stage activities for 2005 include the actions grouped under the headings below.

Market share enhancement

The Bank is planning in 2005 to increase its market share, principally in connection with the activity with households, small businesses, SME and corporate customers. The Bank still does the bulk of its business in the coastal region and its hinterland, but the fact that over the past few years its commercial network has grown to 41 business units demonstrates how keen Banka Koper is to spread its operations to other regions in Slovenia.

The Bank will evaluate the possibility to expand its branch network based on the results and as long as the expansion means staying on track of growth and increasing the Bank's value.

Adding new products and services to the bank's offer

The Bank is operating in a rapidly changing business environment and when opportunities arise, it benefits by developing new products and services that will enable it to capitalise on the choices its customers make in future.

However, commitment to offering a range of products and services that customers want at competitive prices and on reliable and scalable platforms comes at a cost.

In 2005, the Bank is planning to increase the penetration and density of the following products:

- Custody banking – new contracts with mutual funds;
- Leasing – with products availability across the branch network;
- Cross-Border Cash management – the Bank has joined the IBOS system through SPIMI and provides real-time visibility of incoming funds for corporations with cross-border subsidiaries;
- Hedging derivatives for companies – thanks to new technological support, the Bank is expected to respond faster and be more competitive;
- Mutual funds – Slovenian and cross-border ones in cooperation with SPIMI Group;
- Insurance products (in co-operation with SPIMI Group).

Taking customer service to new level

The Bank has completed the process of segmenting customers and assigning loan officers to customers (customer portfolios) and in 2005 is planning to increase the number of customers in all segments.

The Bank will start in 2005 with the implementation of the overhauled system for customer relationship management (CRM) on a sound organisational and information platform.

Pro-active management of credit and other risks

In 2005, the Bank will launch the activities for the implementation and alignment of the methods for analysing and measuring credit and operational risks developed by SanPaolo IMI. To this end, the Bank will observe the requirements laid down in the New Capital Accord (Basel II).

Further development of technical support

The planned modernisation i.e. designing more software applications is expected to boost quality and responsiveness of the Bank's operations (CRM, cross-border payment transactions, controlling, card operations, etc.).

In 2005, the activities will continue for setting up the data warehouse for databases from various analytical applications required for Planning and Control, CRM, Risk Management, as well as for external reporting purposes.

Divestiture

The Bank believes that in 2005 the conditions for the disposal of equity holdings arising from debt-for-equity swaps will be more favourable than in the recent past.

Intelectual capital development

As the Bank's business is pushing into new parts of the country, the diversity of products and services, deployment of new technologies and ever-increasing complexity of risk management practices, call for continuous professional education and training. For that purpose, the Bank drafted a programme for 2005 by segments of employees with the aim to facilitate the knowledge flows within the Bank and through courses of banking/financial topics delivered by leading institutions in Slovenia and abroad.

Re-designing the organisational structure

The Bank's organisational growth keeps abreast of the restructuring needed to reinvent corporate goals and processes to meet a changing environment. The new internal organisational structure helps to continue to deliver value to the Bank. In times of significant change, the new set-up can be useful as a guide through the white water of competitive banking environment and a beacon in handling diverse customer needs.

Statement of management's responsibilities

The management are responsible for preparing consolidated financial statements for each financial year that present fairly the state of affairs of the Bank and its subsidiaries as at the end of the financial year and of the profit or loss for that period.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the consolidated financial statements for the year ended 31 December 2004. The management also confirms that applicable International Financial Reporting Standards have been followed and that the financial statements have been prepared on going concern basis.

The management is responsible for keeping proper accounting records for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and to prevent and detect fraud and other irregularities.

Management Board:

Igor KRAGLEJ	Corrado CASALINO	Vojko ČOK
Member	Deputy President	President

22 April 2005

Consolidated income statement

(all amounts expressed in thousands of SIT)	Notes	Year ended 31 December	
		2004	**2003**
Interest and discount income	2	16,919,518	19,716,141
Interest expense	2	7,199,171	10,035,194
Net interest income		**9,720,347**	**9,680,947**
Fee and commission income	3	6,050,645	5,647,608
Fee and commission expense	3	840,334	674,520
Net fee and commission income		**5,210,311**	**4,973,088**
Dividend income	4	137,602	171,821
Net trading income	5	963,506	1,440,791
Gains less losses from investment securities	6	(240,771)	20,021
Other operating income	7	1,034,855	1,314,308
Operating income		**16,825,850**	**17,600,976**
Operating expenses	8	(10,282,694)	(10,484,913)
Impairment losses on loans and advances	10	135,443	(930,935)
Profit before tax		**6,678,599**	**6,185,128**
Income tax expense	11	(1,558,690)	(1,565,543)
Net profit for the period		**5,119,909**	**4,619,585**
Earnings per share (expressed in SIT per share)			
– basic and diluted	12	9,877	8,903

The following notes on pages 28 to 61 form an integral part of these consolidated financial statements.

Consolidated balance sheet

(all amounts expressed in thousands of SIT)	Notes	As at 31 December 2004	2003
ASSETS			
Cash and balances with central bank	13	3,313,577	7,218,060
Treasury bills and other eligible bills	14	6,577,169	24,098,267
Due from other banks	15	34,475,295	22,273,596
Trading securities	16	9,034,064	8,270,068
Derivative financial instruments	17	101,236	128,413
Loans and advances to customers	18	192,516,424	160,674,488
Investment securities	19	79,622,560	76,302,825
Goodwill	20	217,020	(91,437)
Investment property	21	455,197	653,915
Intangible fixed assets	22	459,669	466,876
Property and equipment	23	7,735,493	6,711,829
Deferred tax assets	31	188,102	115,880
Other assets, including tax assets	24	2,101,974	1,279,807
Total assets		336,797,780	308,102,587
LIABILITIES			
Due to other banks	25	12,020,945	20,492,988
Other deposits	26	1,455,190	1,788,202
Derivative financial instruments and other trading liabilities	17	997,788	650,568
Due to customers	27	230,149,294	211,995,961
Debt securities in issue	28	2,080,371	2,393,311
Other borrowed funds	29	42,714,020	27,563,596
Other liabilities, including tax liabilities	30	6,105,423	5,827,270
Deferred tax liabilities	31	1,044,868	1,410,535
Total liabilities		296,567,899	272,122,431
SHAREHOLDERS' EQUITY			
Share capital	34	5,064,890	5,064,890
Share premium	34	877,625	877,625
Less treasury shares	34	(158,148)	(158,148)
Reserves	35	27,418,325	23,914,000
Reserves for general banking risk	36	1,350,175	1,350,175
Retained earnings		5,677,014	4,931,614
Total shareholders' equity		40,229,881	35,980,156
Total equity and liabilities		336,797,780	308,102,587

These financial statements have been approved for issue by the Board of Directors on 22 April 2005 and signed on its behalf by:

Vojko Čok	Mariza Virágh
President of the Management Board	Chief Financial Officer

The following notes on pages 28 to 61 form an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

(all amounts expressed in thousands of SIT)	Note	Share capital	Share premium	Treasury shares	Reserves for general banking risk	Reserves	Retained earnings	Total
Balance at 1 January 2002		**5,064,890**	**877,625**	**(109,163)**	**1,350,175**	**19,810,046**	**6,606,271**	**33,599,844**
Profit for the year		-	-	-	-	-	4,619,585	4,619,585
Dividend for 2002		-	-	-	-	-	(2,539,349)	(2,539,349)
Purchases/sales of treasury shares		-	-	(48,985)	-	-	-	(48,985)
Increase of treasury shares fund		-	-	-	-	48,985	(48,985)	-
Net fair value gains, net of tax on available-for-sale investments		-	-	-	-	349,061	-	349,061
Transfer to legal reserves		-	-	-	-	212,546	(212,546)	-
Transfer to statutory reserves		-	-	-	-	3,493,362	(3,493,362)	-
Balance at 31 December 2003		**5,064,890**	**877,625**	**(158,148)**	**1,350,175**	**23,914,000**	**4,931,614**	**35,980,156**
Profit for the year		-	-	-	-	-	5,119,909	5,119,909
Dividend for 2003	37	-	-	-	-	-	(1,838,508)	(1,838,508)
Net fair value gains, net of tax on available-for-sale investments	35	-	-	-	-	968,324	-	968,324
Transfer to legal reserves	35	-	-	-	-	230,335	(230,335)	-
Transfer to statutory reserves	35	-	-	-	-	2,305,666	(2,305,666)	-
Balance at 31 December 2004		**5,064,890**	**877,625**	**(158,148)**	**1,350,175**	**27,418,325**	**5,677,014**	**40,229,881**

An analysis of the movements in each category within 'Reserves' is presented in Note 35.

The following notes on pages 28 to 61 form an integral part of these consolidated financial statements.

Consolidated Cash flow statement

(all amounts expressed in thousands of SIT)	**Notes**	**2004**	**2003**
Cash flows from operating activities			
Interest receipts		15,932,555	16,183,883
Interest payments		(6,335,593)	(8,667,316)
Dividend receipts		137,601	171,820
Fee and commission receipts		5,899,798	5,592,155
Other income received		2,883,835	2,326,910
Recoveries on loans previously written off		113,608	14,781
Cash payments to employees and suppliers		(8,707,499)	(8,291,552)
Income taxes paid		(1,456,837)	(2,410,400)
Cash flows from operating activities before changes in operating assets and liabilities		8,467,468	4,920,281
Changes in operating assets and liabilities:			
Net increase in trading securities		(3,036,002)	(967,120)
Net decrease in loans and advances to banks		(5,115,856)	14,144
Net increase in loans and advances to customers		(28,800,777)	(22,924,395)
Net decrease in other assets		4,114,451	764,515
Net increase/decrease in deposits from other banks		(8,445,994)	3,816,679
Net decrease/ increase in other deposits		(450,000)	(1,470,000)
Net increase in amounts due to customers		18,123,214	15,247,985
Net decrease/ increase in other liabilities		(198,143)	(90,719)
Net cash from operating activities		(15,341,639)	(688,630)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash disposed		(542,329)	-
Purchase of property, equipment and intangibles		(2,777,817)	(1,764,556)
Proceeds from sale of property, equipment and intangibles		413,376	169,382
Purchases of investment securities		(58,622,643)	(50,018,345)
Proceeds from sales of investment securities		66,267,743	52,188,046
Net cash used in investing activities		4,738,330	574,527
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		110,373,264	88,814,096
Repayments of borrowed funds and debt securities		(95,200,363)	(83,932,033)
Purchase of treasury shares		-	(48,985)
Dividends paid		(1,848,457)	(2,538,705)
Net cash from financing activities		13,324,444	2,294,373
Effect of exchange rate changes on cash and cash equivalents		(508,625)	(264,024)
Net increase in cash and cash equivalents		**2,212,510**	**1,916,246**
Cash and cash equivalents at beginning of year	38	34,755,137	32,838,891
Cash and cash equivalents at end of year	38	**36,967,647**	**34,755,137**

The following notes on pages 28 to 61 form an integral part of these consolidated financial statements.

Accounting policies

Index to the accounting policies

Accounting policies

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

A Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards and under the historical cost convention as modified by the revaluation of certain assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The Bank maintains its records in accordance with Slovenian Banking Regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with International Financial Reporting Standards issued by the International Standard Board.

B Consolidation

Subsidiaries, which are those companies and other entities (including Special Purpose Entities) in which the Bank, directly or indirectly, has power to govern the financial and operating policies, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note K for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

C Foreign currencies

Income and expenditure arising in foreign currencies are translated into Slovene tolars at the official rates of exchange ruling at the transaction date. Gains and losses resulting from foreign currency translation and foreign currency dealings are included in the income statement for the year. Monetary assets and liabilities denominated in foreign currencies are translated into Slovene tolars at the midmarket exchange rate ruling on the last day of the accounting period and the differences are included in the income statement as net foreign exchange gains or losses.

D Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

E Interest and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

F Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan origination fees for loans, which are probable of being, drawn down, are deferred (together with related direct cost) and recognized as an adjustment to the effective yield on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of business, are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees related to investment funds are recognized rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

G Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations (within a year) in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transactions costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included separately in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

H Investment and originated loans

The Bank classified its investments into the following three categories: held-to-maturity, available-for-sale-assets and originated loans. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

As regard originated loans, the Bank values them at amortized cost less any provision for impairment.

Held-to-maturity investments are carried at amortised cost less any provision for impairment.

H Investment and originated loans (continued)

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned on investment securities is reported as interest income. Dividends received are included separately in dividend income when dividend is declared. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Bank commits to purchase or sell the assets. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

I Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date, and the book values approximate the fair value. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the provision for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

J Other credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

K Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity.

L Investment property

Investment property comprises freehold land and buildings that are not occupied substantially for use by, or in the operations of the Bank. The Bank has elected to account for investment property in accordance with IAS 40, using the cost method. Investment property is carried at cost less accumulated depreciation and less any provision for impairment.

M Computer software development costs

Costs associated with developing computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 2 years.

N Property and equipment

Property and equipment is carried at depreciated revalued amounts less any subsequent impairment loss. Revaluations are based on the fair value of the assets. An upward revaluation of assets is credited directly to the shareholders' equity unless it reverses a decrease on the same assets previously charged to income. A downward revaluation is charged to expense unless there is a balance in the revaluation surplus arising from a previous upward revaluation of the same assets.

Depreciation is calculated on the straight line basis at rates designed to write off cost or valuation of property and equipment over their estimated useful lives as follows:

	Estimated useful life (in years)
Buildings	20
Motor vehicles	3 - 8
Other equipment	3 - 4
Hardware equipment	2

Land is included at revalued cost and is not depreciated. Assets in the course of transfer are not depreciated until they are brought into use.

Property and equipment are periodically (every five years) reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

O Intangible assets

Intangible assets are recorded at cost. Depreciation is calculated on the straight line basis to write off cost of intangible assets over their estimated useful lives of between two and five years as follows:

	Estimated useful life (in years)
Licences	3 - 5
Software	2
Other intangible assets	3 - 5

P Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank, treasury bills and other eligible bills, amounts due from other banks and dealing securities readily convertible to a known amount of cash.

Q Share capital and Treasury shares

(1) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year which are declared after the balance sheet date are dealt with in the subsequent events note.

(2) Treasury shares

Where the Bank purchases its share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

R Taxation

Taxation has been provided for in the financial statements in accordance with Slovenian legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax enacted at the balance sheet date.

Deferred income tax is provided in full, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax asset are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available which these losses can be utilised against.

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

S Segmental reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10 per cent or more of all the segment are reported separately.

T Employee benefits

According to Slovenian legislation employees retire after 40 years of service. Subject to the fulfilment of certain statutory conditions they are entitled to lump sum severance pay. Employees are also entitled to long service bonus for every ten years of employment with the Bank.

These obligations are measured at the present value of the estimated future cash outflows. All gains and losses are recognised in income.

U Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

V Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives held for trading are included in net trading income.

W Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

X Borrowings

Borrowings are recognised initially at ‘cost’. They are subsequently stated at amortised cost and any difference between net proceeds and redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Y Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Z Pensions

The Bank and its subsidiaries contribute to state pension schemes (8.85% of gross salaries) and do not have any separate pension scheme arrangements.

Financial risk management

A Strategy in using financial instruments

By its nature the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers mainly at floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to corporate and retail borrowers with a range of credit standings. Such exposures involve just on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

B Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by the BIS) by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk.

Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weighting (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8 % of the carrying amount. Other asset categories have intermediate weightings. The loan portfolio insured by mortgages have been weighted at 100% risk; however, the regulations of Bank of Slovenia define such claims as 50% risk.

Off-balance sheet credit related commitments, forward and option based derivative instruments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of shareholders' equity plus negative goodwill. Tier 2 capital includes the Bank's eligible revaluation reserves and general provisions.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

B Capital adequacy - continued

(all amounts expressed in thousand of SIT)	**Balance sheet/ Nominal amount**		**Risk weighted amount**	
	2004	**2003**	**2004**	**2003**
Balance sheet assets (net of provisions)				
Due from other banks	34,475,295	22,273,596	5,869,059	4,454,719
Loans and advances to customers	192,516,424	160,674,488	166,269,703	138,103,406
Trading and investment securities	95,233,793	108,671,160	2,381,982	2,355,974
Derivative financial instruments	101,236	128,413	101,236	128,413
Property investment	455,197	653,915	455,197	653,915
Intangible fixed assets	459,669	466,876	459,669	466,876
Property and equipment	7,735,493	6,711,829	7,735,493	6,711,829
Other assets	2,507,096	1,304,250	2,318,994	1,188,370
Unassigned market-risk components			46,229,676	36,123,397
Off balance sheet positions				
Credit related commitments	65,738,710	57,258,622	14,144,872	27,907,396
Forwards-based derivative instruments	9,496,543	9,359,006	241,775	326,238
Total risk- weighted assets			**246,207,656**	**218,420,533**

BIS Capital Ratios

	Capital		**BIS%**	
	2004	**2003**	**2004**	**2003**
Tier 1 capital	33,375,283	30,402,339	13.56	13.92
Tier 1 + Tier 2 capital	40,012,861	36,071,593	16.25	16.51

C Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in, full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by the Management Board.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Geographical concentration of assets, liabilities and off -balance sheet items

The Bank operates principally in its home country of Slovenia. Transactions with entities in other countries are in the form of interbank relations principally relating mostly to deposits and borrowed funds, only a small part of customers lending (SIT 4,938,820 thousand) relates principally to the other countries of former Yugoslavia (in 2003: SIT 4,458,403 thousand).

In total, net credit risk exposure to foreign banks and other financial institutions amounted to SIT 29,952,702 thousand as at 31 December 2004 (SIT 20,886,616 thousand as at 31 December 2003).

C Credit risk (continued)

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

D Market risk

The Bank is exposed 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. The management of this risk is carried out by the Risk Management Department. The Management Board sets limits on the level 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 99%, of the potential loss which might arise if the current positions were to be held unchanged for ten days holding period. The measurement is structured so that daily losses exceeding the VAR figure should occur, on average, not more than once every hundred days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

Since VAR constitutes an integral part of the, Bank's market risk control regime, VAR limits are established by the Board for all trading and portfolio operations; actual exposure against limits is reviewed weekly by management.

E Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency and in total, which are monitored daily. Regarding the open currency net balance sheet position the Bank has been managing possible currency risks, considering positive effects of the long currency position in Slovenian Tolars more than covered the negative impact of the open FX-currency position.

Concentration of assets, liabilities and off-balance sheet items

The table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

E Currency risk – continued

As at 31 December 2004	EUR	USD	SIT	Other	Total
Assets					
Cash and balances with central bank	924,918	78,081	2,199,221	111,357	3,313,577
Treasury bills and other eligible bills	-	-	6,577,169	-	6,577,169
Due from other banks	21,331,017	6,265,877	5,148,554	1,729,847	34,475,295
Trading securities	275,449	-	8,758,615	-	9,034,064
Derivative financial instruments	-	-	101,236	-	101,236
Loans and advances to customers	57,333,219	607,194	133,432,738	1,143,273	192,516,424
Investment securities	33,829,013	9,458,427	36,335,120	-	79,622,560
- held to maturity	31,457,670	9,458,427	816,909	-	41,733,006
- available for sale	2,371,343	-	20,250,703	-	22,622,046
- originated securities	-	-	15,267,508	-	15,267,508
Goodwill	-	-	217,020	-	217,020
Investment property	-	-	455,197	-	455,197
Intangible fixed assets	-	-	459,669	-	459,669
Property and equipment	-	-	7,735,493	-	7,735,493
Deferred tax assets	-	-	188,102	-	188,102
Other assets, including tax assets	57,699	3,805	2,038,839	1,631	2,101,974
Total assets	**113,751,315**	**16,413,384**	**203,646,973**	**2,986,108**	**336,797,780**
Liabilities					
Due to other banks	11,732,592	23,643	264,438	272	12,020,945
Other deposits	-	-	1,455,190	-	1,455,190
Derivative financial instruments and other trading liabilities	-	-	997,788	-	997,788
Due to customers	74,023,756	16,286,228	137,345,853	2,493,457	230,149,294
Debt securities in issue	-	-	2,080,371	-	2,080,371
Other borrowed funds	41,740,666	44,952	501,239	427,163	42,714,020
Deferred tax liabilities	228,692	15,723	5,842,557	18,451	6,105,423
Other liabilities, including tax liabilities	-	-	1,044,868	-	1,044,868
Total liabilities	**127,725,706**	**16,370,546**	**149,532,304**	**2,939,343**	**296,567,899**
Net balance sheet position	**(13,974,391)**	**42,838**	**54,114,669**	**46,765**	**40,229,881**
Credit commitments	**11,775,971**	**1,300,257**	**52,496,857**	**407,400**	**65,980,485**

As at 31 December 2003	EUR	USD	SIT	Other	Total
Total assets	**85,774,209**	**18,127,395**	**200,993,172**	**3,207,811**	**308,102,587**
Total liabilities	**95,786,704**	**18,071,977**	**155,060,295**	**3,203,455**	**272,122,431**
Net balance sheet position	**(10,012,495)**	**55,418**	**45,932,877**	**4,356**	**35,980,156**
Credit commitments	**7,293,286**	**654,394**	**49,472,287**	**164,893**	**57,584,860**

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

F Interest rate risk

Interest sensitivity of assets and liabilities

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Management Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly. In 2004 the Bank managed its interest rate policy considering special legislation concerning the interest rate for late payments and basic interest rate in relation to liability related interest rates.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Maturity dates do not differ significantly from the contract dates, except for the maturity of SIT 168,348,159 thousand (2003: SIT 145,059,371 thousand) of Due to customers up to 1 month, of which 60 % (2003: 60 %) represent balances on current accounts considered by the Bank as a relatively stable core source of funding for its operations.

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and central bank balances	1,668,601	-	-	-	-	1,644,976	3,313,577
Treasury and other eligible bills	1,729,542	1,742,649	3,010,678	-	-	94,300	6,577,169
Due from other banks	29,345,295	-	-	5,130,000	-	-	34,475,295
Trading securities	1,444,248	562,578	1,255,632	1,739,497	971,578	3,060,531	9,034,064
Derivatives	-	-	-	-	-	101,236	101,236
Loans to customers	139,350,691	9,426,083	31,254,204	7,767,564	1,569,404	3,148,478	192,516,424
Investment securities:	26,898,201	21,339,839	15,253,193	4,222,914	5,417,906	6,490,507	79,622,560
- available-for-sale	5,971,957	151,200	676,000	4,222,914	5,417,906	6,182,068	22,622,045
- originated securities	15,074,033	-	-	-	-	193,475	15,267,508
- held-to-maturity	5,852,211	21,188,639	14,577,193	-	-	114,964	41,733,007
Other assets	-	-	-	-	-	11,157,455	11,157,455
Total assets	**200,436,578**	**33,071,149**	**50,773,707**	**18,859,975**	**7,958,888**	**25,697,483**	**336,797,780**
Liabilities							
Due to other banks	2,099,486	7,432,033	2,397,430	47,949	-	44,047	12,020,945
Other deposits	950,000	-	-	-	-	505,190	1,455,190
Derivatives	-	-	-	-	-	997,788	997,788
Due to customers	168,348,159	37,212,865	21,385,099	402,524	1,640	2,799,007	230,149,294
Debt securities in issue	2,000,000	-	-	-	-	80,371	2,080,371
Other borrowed funds	39,623,496	51,613	51,614	1,318,275	1,483,705	185,317	42,714,020
Deferred tax liabilities	-	-	-	-	-	1,044,868	1,044,868
Other liabilities	-	-	-	-	-	6,105,423	6,105,423
Total liabilities	**213,021,141**	**44,696,511**	**23,834,143**	**1,768,748**	**1,485,345**	**11,762,011**	**296,567,899**
On-balance sheet Interest sensitivity gap	**(12,584,563)**	**(11,625,362)**	**26,939,564**	**17,091,227**	**6,473,543**		

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

F Interest rate risk (continued)

The table below summarises the effective annual interest rate by major currencies for monetary financial instruments:

As at 31 December 2004	EUR	USD	SIT
Assets			
Cash and balances with central bank	-	-	1.00
Treasury bills and other eligible bills	-	-	3.97
Due from other banks	2.14	2.40	4.20
Trading securities- debt securities	-	-	4.89
Loans and advances to customers	3.00	2.84	7.23
Investment securities- debt securities	2.28	2.14	6.77
Liabilities			
Due to other banks	2.17	-	3.52
Other deposits	-	-	9.93
Due to customers	1.04	0.60	2.82
Debt securities in issue	-	-	10.13
Other borrowed funds	2.42	-	3.30

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and central bank balances	4,397,569	-	-	-	-	2,820,491	7,218,060
Treasury and other eligible bills	3,303,757	3,159,812	17,634,698	-	-	-	24,098,267
Due from other banks	22,224,096	49,500	-	-	-	-	22,273,596
Trading securities	1,512,988	-	-	613,372	149,895	5,993,813	8,270,068
Derivatives	-	-	-	-	-	128,413	128,413
Loans to customers	149,853,258	2,977,741	6,692,079	74,682	21,045	1,055,683	160,674,488
Investment securities:	32,353,529	18,708,430	16,942,119	2,982,833	1,553,870	3,762,044	76,302,825
- available-for-sale	6,974,580	-	-	2,982,833	1,553,870	3,762,044	15,273,327
- originated securities	15,193,559	-	-	-	-	-	15,193,559
- held-to-maturity	10,185,390	18,708,430	16,942,119	-	-	-	45,835,939
Other assets	-	-	-	-	-	9,136,870	9,136,870
Total assets	**213,645,197**	**24,895,483**	**41,268,896**	**3,670,887**	**1,724,810**	**22,897,314**	**308,102,587**
Liabilities							
Due to other banks	14,980,240	1,488,881	4,023,867	-	-	-	20,492,988
Other deposits	-	-	463,990	1,324,212	-	-	1,788,202
Derivatives	-	-	-	-	-	650,568	650,568
Due to customers	146,251,329	36,724,252	29,020,380	-	-	-	211,995,961
Debt securities in issue	2,393,311	-	-	-	-	-	2,393,311
Other borrowed funds	25,944,863	1,102,312	516,421	-	-	-	27,563,596
Deferred tax liabilities	-	-	-	-	-	1,410,535	1,410,535
Other liabilities	-	-	-	-	-	5,827,270	5,827,270
Total liabilities	**189,569,743**	**39,315,445**	**34,024,658**	**1,324,212**	**-**	**7,888,373**	**272,122,431**
On-balance sheet Interest sensitivity gap	**24,075,454**	**(14,419,962)**	**7,244,238**	**2,346,675**	**1,724,810**		

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

F Interest rate risk – continued

The table below summarises the effective annual interest rate by major currencies for monetary financial instruments:

As at 31 December 2003	EUR	USD	SIT
Assets			
Cash and balances with central bank	-	-	1.00
Treasury bills and other eligible bills	-	-	6.48
Due from other banks	2.13	1.07	3.96
Trading securities- debt securities	-	-	8.16
Loans and advances to customers	3.07	1.31	9.01
Investment securities- debt securities	2.15	1.01	8.34
Liabilities			
Due to other banks	2.16	-	8.36
Other deposits	-	-	9.49
Due to customers	1.12	0.49	4.67
Debt securities in issue	-	-	11.79
Other borrowed funds	2.70	-	5.65

G Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees.

Short-term mismatch risk has been within reasonable limits considering the long-term prognosis for repayable on demand deposits, which have been showing stable growth. There has been no question surrounding the Bank's capacity to meet its current obligations in time. The possible mismatch regarding the current inflows and current outflows can be easily overcome by activating the secondary liquidity with the central bank. The Board 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.

The table below analyses assets and liabilities of the Bank by relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

G Liquidity risk – continued

Maturities of assets and liabilities

As at 31 December 2004	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and central banks balances	3,313,577	-	-	-	-	3,313,577
Treasury and other eligible bills	2,209,639	1,768,539	2,598,991	-	-	6,577,169
Due from other banks	29,345,295	-	-	5,130,000	-	34,475,295
Trading securities	3,565,879	791,365	1,397,436	2,339,476	939,908	9,034,064
Derivative financial instruments	12,465	7,254	46,762	34,755	-	101,236
Loans to customers	12,028,542	23,861,297	68,538,830	63,672,746	24,415,009	192,516,424
Investment securities:	6,885,254	21,239,305	15,263,475	12,586,866	23,647,660	79,622,560
- available-for-sale	1,799,003	-	672,933	11,037,857	9,112,252	22,622,045
- originated securities	-	-	-	1,549,009	13,718,499	15,267,508
- held-to-maturity	5,086,251	21,239,305	14,590,542	-	816,909	41,733,007
Other assets	1,707,576	307,715	86,683	405,122	8,650,359	11,157,455
Total assets	**59,068,227**	**47,975,475**	**87,932,177**	**84,168,965**	**57,652,936**	**336,797,780**
Liabilities						
Due to other banks	1,833,354	7,459,817	2,406,392	321,382	-	12,020,945
Other deposits	-	-	-	1,455,190	-	1,455,190
Derivative financial instruments and other trading liabilities	19,197	13,911	367,680	-	597,000	997,788
Due to customers	150,974,652	36,830,934	31,722,063	10,221,495	400,150	230,149,294
Debt securities in issue	-	-	2,080,371	-	-	2,080,371
Other borrowed funds	563,036	103,657	32,287,056	8,254,844	1,505,427	42,714,020
Other liabilities	2,279,622	76,787	363,430	1,297,427	3,133,025	7,150,291
Total liabilities	155,669,861	44,485,106	69,226,992	21,550,338	5,635,602	296,567,899
Net liquidity gap	**(96,601,634)**	**3,490,369**	**18,705,185**	**62,618,627**	**52,017,334**	**40,229,881**

As at 31 December 2003	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Total assets	58,766,851	39,731,754	92,654,556	67,958,863	48,990,563	308,102,587
Total liabilities	139,176,100	42,948,817	40,851,878	43,599,965	5,545,671	272,122,431
Net liquidity gap	**(80,409,249)**	**(3,217,063)**	**51,802,678**	**24,358,898**	**43,444,892**	**35,980,156**

H Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price. Management using available market information, where it exists, and appropriate valuation methodologies has determined the estimated fair values of financial instruments. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Securities held for trading and available for sale are measured at fair value. Originated securities and loans and held to maturity assets are measured at amortised cost less impairment.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans and advances
Fair value of loans and advances 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. 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. As the Bank has very limited portfolio of loans and advances with fixed rate and longer-term maturity, the fair value of loans and advances is not significantly different from their carrying value.

Investments carried at cost
For most of investments carried at amortised cost less impairment a quoted market price is not available and fair value is, where possible, estimated using discounted cash flow techniques. 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.

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 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. As most of the Bank's deposits are given with variable rate, being market rate, there is no significant difference between the fair value of these deposits and their carrying value.

Borrowings
Most of the Bank's long-term debt has no quoted market prices and 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 similar type and remaining maturity. Again, as the majority of the Bank's long-term debt is with variable interest rates there is no significant difference between their carrying and fair value.

Notes to the financial statements

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(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

Notes to the financial statements

1 Business segments

The Bank is organised into three main business segments:
- **Retail banking**: Individuals, sole entrepreneurs and small enterprises: comprises private customer current accounts, savings, deposits, investment products, credit and debit cards, foreign exchange trading, payment transactions, loans, advances and mortgages.
- **Corporate banking**: Corporate and institutional clients: comprises direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency, payment transactions and derivative products.
- **Investment banking**: Treasury: Issue of debt securities, currency and securities trading, money market transactions and other asset management products.

Other operations of the Bank comprise non-banking services such as providing computer services and leasing.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in segments results. Interest charged for these funds is based on the Bank's cost capital. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet and excluding items such as taxation and borrowings.

Capital expenditure comprises additions to property and equipment. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Primary segment information

Year ended 31 December 2004	Retail banking	Corporate banking	Investment banking	Other	Eliminations	Total
External revenues	10,351,951	11,699,566	4,912,321	2,950,266	-	29,914,104
Revenues from other segments	2,970,879	-	-	2,983,090	(5,953,969)	-
Total revenues	**13,322,830**	**11,699,566**	**4,912,321**	**5,933,356**	**(5,953,969)**	**29,914,104**
Segment result	3,801,708	3,374,904	(795,502)	206,052	-	6,587,162
Unallocated income (from negative goodwill)	-	-	-	-	-	91,437
Profit before tax	-	-	-	-	-	6,678,599
Income tax expense	-	-	-	-	-	(1,558,690)
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**5,119,909**
Segment assets	67,215,198	123,246,913	131,985,191	14,133,458	-	336,580,760
Unallocated assets (goodwill)	-	-	-	-	-	217,020
Total assets	**-**	**-**	**-**	**-**	**-**	**336,797,780**
Segment liabilities	195,875,608	27,941,041	68,284,803	4,466,447	-	296,567,899
Total liabilities	**-**	**-**	**-**	**-**	**-**	**296,567,899**
Capital expenditure	2,565,375	1,011,646	130,535	1,247,401		4,954,957
Depreciation	843,689	332,706	42,930	338,868		1,558,193
Amortisation						91,437

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

1 Business segments – continued

Primary segment information

Year ended 31 December 2003	Retail banking	Corporate banking	Investment banking	Other	Eliminations	Total
External revenues	10,430,119	9,165,312	6,166,552	2,548,707	-	28,310,690
Revenues from other segments	5,521,363	-	-	1,127,689	(6,649,052)	-
Total revenues	**15,951,482**	**9,165,312**	**6,166,552**	**3,676,396**	**(6,649,052)**	**28,310,690**
Segment result	5,188,595	3,474,176	(754,169)	(1,869,252)	-	6,039,350
Unallocated income (from negative goodwill)	-	-	-	-	-	145,778
Profit before tax	-	-	-	-	-	6,185,128
Income tax expense	-	-	-	-	-	(1,565,543)
Net profit for the period						4,619,585
Segment assets	59,207,853	103,067,437	136,245,579	9,673,155	-	308,194,024
Unallocated assets (negative goodwill)	-	-	-	-	-	(91,437)
Total assets	-	-	-	-	-	308,102,587
Segment liabilities	186,961,260	32,524,509	48,463,263	4,173,399	-	272,122,431
Total liabilities	-	-	-	-	-	**272,122,431**
Capital expenditure	1,242,763	432,516	98,037	-	-	1,773,316
Depreciation	1,162,813	404,691	91,730	-	-	1,659,234
Amortisation	-	-	-	145,778	-	145,778

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

2 Net interest income

	2004	2003
Interest and discount income		
Central bank deposits	66,348	65,442
Treasury bills and marketable securities	966,180	2,278,450
Bank deposits and loans	846,927	631,844
Loans and advances to other customers	11,910,278	13,653,123
Investment securities	3,060,805	3,005,980
Other	68,980	81,302
	16,919,518	19,716,141
Interest expense		
Bank deposits and loans	1,096,298	2,289,404
Other customers	5,740,309	7,206,432
Debt securities in issue	335,135	474,879
Other	27,429	64,479
	7,199,171	10,035,194

3 Net fee and commission income

	2004	2003
Fee and commission income		
Guarantees	197,392	180,204
Payment transactions	1,516,274	1,356,419
Debit/credit card money transactions	3,449,983	3,360,510
Other	886,996	750,475
	6,050,645	5,647,608
Fee and commission expense		
Bank services	627,458	454,778
Money transfer	189,451	193,783
Other	23,425	25,959
	840,334	674,520

4 Dividend income

	2004	2003
Trading securities	108,141	144,188
Investment securities	29,461	27,633
	137,602	171,821

5 Net trading income

	2004	2003
Foreign exchange transaction losses less gains	94,390	(259,177)
Currency trading	384,087	256,600
Securities trading		
- equities	727,202	1,005,628
- debt securities	30,106	7,934
- derivatives	(272,279)	429,806
	963,506	1,440,791

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

6 Gains less losses from investment securities

	2004	2003
Loss / income due to sale of investment securities	(240,771)	20,021
	(240,771)	20,021

7 Other operating income

	2004	2003
Rent	375,305	204,535
Amortisation of negative goodwill	91,437	145,778
Other	568,113	963,995
	1,034,855	1,314,308

8 Operating expenses

	2004	2003
Staff costs (Note 9)	5,572,926	5,629,844
Material costs	357,190	411,192
Maintenance costs	450,791	406,890
Rent	262,819	327,471
Professional services	1,178,236	1,250,799
Advertising and marketing	324,367	305,677
Depreciation (Note 22, 23)	1,558,193	1,659,234
Other	578,172	493,806
	10,282,694	10,484,913

9 Staff costs

	2004	2003
Salaries	3,719,086	3,467,004
Social security costs	615,521	575,829
Pension costs	332,036	308,603
Retirement and long service bonus	26,122	474,649
Other	880,161	803,759
	5,572,926	5,629,844

10 Impairment losses on loans and advances

	2004	2003
Amounts due from other banks (Note 15)	76,434	(52,707)
Loans and advances to customers (Note 18)	(221,793)	1,327,500
Provisions for off-balance sheet exposures (Note 32)	783,391	(462,586)
Other assets (Note 24)	(714,262)	37,408
Bad debts written off directly	54,395	96,101
Recoveries on loans previously written off	(113,608)	(14,781)
	(135,443)	930,935

11 Income tax expense

	2004	2003
Tax on profit	1,454,719	1,384,708
Deferred tax (Note 31)	103,971	180,835
Income tax expense	1,558,690	1,565,543

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

11 Income tax expense (continued)

Further information about deferred income tax is presented in Note 31. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	6,678,599	6,185,128
Differences from IFRS to statutory reporting	(551,759)	(549,504)
Profit before tax	6,126,840	5,635,624
Prima facie tax calculated at a tax rate of 25% [2003: 25%]	1,531,710	1,408,906
Income not assessable for tax	(4,550)	(29,072)
Income assessable for tax (not recognised in income statement)	8,790	8,086
Expenses not deductible for tax purposes		
– Non-allowable provisions	31,250	-
– Other non deductible expenses	142,455	125,759
Tax relief	(254,936)	(128,971)
Tax on profit	1,454,719	1,384,708

In accordance with local regulations, the tax authorities may at any time inspect the Bank’s books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Bank’s management is not aware at any circumstances, which may give rise to a potential material liability in this respect.

12 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares. There are no diluted potentional ordinary shares. There are no share options schemes.

	2004	**2003**
Net profit attributable to shareholders	5,119,909	4,619,585
Weighted average number of ordinary shares in issue	518,356	518,882
Basic earnings per share (expressed in SIT per share)	9,877	8,903

13 Cash and balances with central bank

	2004	**2003**
Cash in hand included in cash and cash equivalents (Note 38)	3,313,577	4,193,111
Mandatory reserve deposits with central bank	-	3,024,949
	3,313,577	7,218,060

Balances with central bank include mandatory reserve deposits of SIT 7,672,515 thousand. The Bank is required to maintain a mandatory reserve with the central bank (Bank of Slovenia), relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as mandatory reserve is as follows:

- 4,5% of sight deposits and time deposits of up to 90 days in local currency,
- 2% of time deposits between 91 and two years in local and foreign currency.

The Bank maintains sufficient liquid assets to fully comply with central bank requirements.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

14 Treasury bills and other eligible bills

	2004	2003
Included in cash and cash equivalents (Note 38)	3,521,985	5,600,857
Not included in cash equivalents (with maturity over 3 months)	3,055,184	18,497,410
	6,577,169	24,098,267

Treasury bills are debt securities for a term of seven days to nine months. Bills are classified as originated loans and are carried at their amortized cost.

15 Due from other banks

	2004	2003
Items in course of collection from other banks	2,407,909	2,417,191
Placements with other banks	27,597,773	20,440,358
Included in cash and cash equivalents (Note 38)	30,005,682	22,857,549
Placements with other banks	5,130,000	-
Not included in cash equivalents	5,130,000	-
Less specific provisions for impairment	(660,387)	(583,953)
	34,475,295	22,273,596

The above provisions refer mostly to the frozen deposit with Tržaška kreditna banka in liquidation (SIT 360,514 thousand) for which the bank has recorded 100% value adjustments.

16 Trading securities

	2004	2003
Trading securities included in cash equivalents (Note 38)	126,403	2,103,620
Other government bonds	2,220,131	-
Other debt securities	3,997,248	172,635
Equity securities		
– Listed	2,690,282	5,263,678
– Unlisted	-	730,135
Total trading	9,034,064	8,270,068

At 31 December 2004 there are no securities pledged (2003:nil).

17 Derivative financial instruments and trading liabilities

Forward agreements on sale of marketable shares represent commitments to sell shares at the future date under the price stipulated in the contract. From the day of the signing of the contract the securities are already in the possession of the Bank and the Bank does not trade in these securities until the expiration of the contracting period. Therefore the Bank is not exposed to any market risk within the framework of these transactions. The maturity period for forward agreements is usually between 6 months and one year. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market price, market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table:

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

17 Derivative financial instruments and trading liabilities (continued)

Year ended 31 December 2004	Contract/notional amount	Fair values	
		Assets	Liabilities
Interest rate derivatives			
Interest rate swaps	2,191,731	34,755	-
Cross-currency interest rate swaps	2,191,731	-	42,107
Other derivatives			
Forward agreement on sale of marketable shares	1,401,831	37,415	-
Forward agreement due to National Housing Saving Scheme commitments	24,585,138	-	597,000
Currency forward	3,711,251	29,066	358,681
Total derivative assets/(liabilities) held for trading		101,236	997,788

Year ended 31 December 2003	Contract/notional amount	Fair values	
		Assets	Liabilities
Interest rate derivatives			
Interest rate swaps	1,586,028	14,208	-
Cross-currency interest rate swaps	1,586,028	-	19,703
Other derivatives			
Forward agreement on sale of marketable shares	1,641,350	75,342	-
Forward agreement due to National Housing Saving Scheme commitments	23,541,000	-	472,000
Currency forward	4,545,600	38,863	158,865
Total derivative assets/(liabilities) held for trading		128,413	650,568

18 Loans and advances to customers

	2004	2003
Loans to individuals:		
Overdrafts	7,597,781	7,311,943
Credit cards	2,450,937	2,486,892
Term loans	27,809,266	24,716,604
Mortgages	15,554,628	12,144,785
Other	68,001	68,001
Loans to corporate entities:		
Overdrafts	596,597	384,041
Credit cards	135,461	20,858
Commercial loans	153,253,909	128,680,642
Other	65,671	59,240
Gross loans and advances	207,532,251	175,873,006
Less provision for impairment	(15,015,827)	(15,198,518)
	192,516,424	160,674,488

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

18 Loans and advances to customers (continued)

Movement in provisions for impairment are as follows:

Balance at 1 January 2003	13,954,265
Additional provision for loan impairment	1,161,006
Bad debts written off (charged against specific provisions)	83,247
Balance at 31 December 2003	15,198,518
Adjustments related to acquisition (not included in income statement)	66,120
Recoveries of amounts previously provided	(221,793)
Bad debts written off (charged against specific provisions)	(27,018)
Balance at 31 December 2004	15,015,827

All loans were written down to their recoverable amounts. Economic sector risk concentrations within the customer loan portfolio were as follows:

	2004	2004 %	2003	2003 %
Government bodies	3,372,999	2	4,410,544	3
Trade	27,541,719	13	20,142,910	11
Services	62,449,848	30	53,909,920	31
Construction	6,858,657	3	6,054,865	3
Manufacturing	45,018,234	22	37,060,794	21
Agriculture	1,989,519	1	1,721,983	1
Private individuals	54,380,021	26	46,599,830	26
Other	5,921,254	3	5,972,160	3
Gross loans and advances	207,532,251	100	175,873,006	100
Less provision for impairment	(15,015,827)		(15,198,518)	
Net loans and advances	192,516,424		160,674,488	

Slovenian customers and customers from other European countries accounted for 98% and 2% of geographic sector risk concentration within the customer loan portfolio, respectively.

The loans and advances to customers include finance lease receivables, which may be analysed as follows:

	2004	2003
Gross investment in finance leases:		
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	983,216	-
Later than 5 years	1,755,041	-
	2,738,257	-
Unearned future finance income on finance leases	(62,603)	-
Net investment in finance leases	2,675,654	-
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	960,679	-
Later than 5 years	1,714,975	-
	2,675,654	-

Loans and advances are further analysed as a part of the balance sheet in the following notes: Currency Risk Note E, Interest Rate Risk Note F, Liquidity Risk Note G, Fair value Note H and Related Party Transactions Note 39.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

19 Investment securities	**2004**	**2003**
Securities available- for- sale		
Debt securities		
– Listed	16,919,443	11,511,283
Equity Securities		
– Unlisted	5,702,602	3,762,044
Total securities available-for-sale	22,622,045	15,273,327
Originated loans		
– Listed	1,549,009	1,988,116
– Unlisted	13,718,499	13,205,443
Total originated lons	15,267,508	15,193,559
Securities held to maturity		
Debt securities		
– Listed	816,909	906,902
– Unlisted	40,916,098	44,929,037
Total securities held to maturity	41,733,007	45,835,939
Total investment securities	79,622,560	76,302,825

The originated loans classified as unlisted include government bonds issued in exchange for claims on the National Bank of former Yugoslavia in relation to deposits denominated in foreign currencies paid out to depositors. The bonds mature on 31 December 2014. Interest is payable semi-annually at the rate of 3% per annum on the revalued principal. The bonds are subject to revaluation at 90% of the annual rate of inflation.

The unlisted debt securities held-to-maturity relate to treasury bills in foreign currencies issued by Bank of Slovenia in amount of SIT 40,824,551 thousand (2003: SIT 44,840,319 thousand).

The unlisted equity securities relate mostly to debt to equity swaps performed in the nineties.

Unlisted Equity Securities	**2004**	**2003**
Cimos International	2,708,295	2,472,663
Pivka perutninarstvo d.d. Neverke	290,000	290,000
Splošna plovba Portorož	86,916	86,916
Lama Dekani	370,000	370,000
Other	2,247,391	542,465
	5,702,602	3,762,044

The movement in investment securities may be summarised as follows:

	2004			**2003**
	Available for sale	**Originated loans**	**Held to maturity**	**Total**
At beginning of the year	15,273,327	15,193,559	45,835,939	68,932,496
Additions	7,321,745	65,012	129,653,655	60,415,581
Exchange differences on monetary assets	25,662	-	(262,376)	(359,370)
Interests accrued on monetary assets	53,576	502,167	970	726,413
Disposals/Redemption	(510,654)	(493,230)	(133,495,181)	(53,874,195)
Gains from changes in fair value	458,389	-	-	461,900
At end of year	22,622,045	15,267,508	41,733,007	76,302,825

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

20 Goodwill

On 30 September 1999 Banka Koper acquired the remaining 40% of shares in the Slovenian bank M banka. The existing 60% shareholding was acquired in two steps: 51% in 1997 and 9% in April 1999.
On 19 January 2004 Banka Koper acquired 100% of the capital of a small leasing company.

	2004	2003
Opening net book amount	(91,437)	(237,212)
Amortisation charge	91,437	145,775
Goodwill due to acquisition	217,020	-
Closing net book amount	217,020	(91,437)
Cost - negative goodwill	(1,782,259)	(1,782,259)
Accumulated amortisation - negative goodwill	1,782,259	1,690,822
Cost - positive goodwill	217,020	-
Net book amount	217,020	(91,437)

21 Investment property

	2004	2003
At beginning of year	653,915	492,779
Transfer to fixed assets	(12,236)	-
Depreciation	(53,496)	(63,588)
Disposals	(173,786)	-
Additions	40,800	224,724
At end of year	455,197	653,915

The item other operating income from property investments carries rents in the amount of SIT 16,368 thousand (2003: SIT 38,927 thousand). There are no maintenance costs incurred under property investments (2003: SIT 858 thousand). The bank has not obtained a valuation by independent professionally qualified valuer. But Bank's management believe that the carrying value is not substantially different from the fair value.

22 Intangible fixed assets

At 31 December 2003	
Cost	1,830,086
Accumulated amortisation	(1,363,210)
Net book amount	466,876
Opening net book amount	466,876
Additions	623,025
Dosposals	(304,916)
Amortisation charge	(325,316)
Closing net book amount	459,669
At 31 December 2004	
Cost	2,148,195
Accumulated amortisation	(1,688,526)
Net book amount	459,669

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

23 Property and equipment

	Land and buildings	Hardware equipment	Other equipment	Total
At 31 December 2003				
Cost	9,190,131	2,897,707	2,961,212	15,049,050
Accumulated depreciation	(3,712,754)	(2,491,677)	(2,132,790)	(8,337,221)
Net book amount	5,477,377	406,030	828,422	6,711,829
Year ended December 2003				
Opening net book amount	5,477,377	406,030	828,422	6,711,829
Additions	1,480,604	544,689	2,089,619	4,114,912
Disposals	(419,298)	(282,653)	(1,148,285)	(1,850,236)
Depreciation charge	(437,176)	(334,052)	(461,649)	(1,232,877)
Valuation	-	-	(8,135)	(8,135)
Closing net book amount	6,101,507	334,014	1,299,972	7,735,493
At 31 December 2004				
Cost	9,010,999	2,334,282	3,728,350	15,073,631
Accumulated depreciation	(2,909,492)	(2,000,268)	(2,428,378)	(7,338,138)
Net book amount	6,101,507	334,014	1,299,972	7,735,493

24 Other assets

	2004	2003
Commission receivables	60,863	62,450
Accrued expenses	101,069	76,265
Advances	53,237	202,569
Transition accounts receivables	6,935	33,779
Taxes prepaid	-	166,556
Cheques	19,939	22,639
Claims to citizens	1,275,723	845,879
Other	616,963	616,687
Less provision for impairment	(32,755)	(747,017)
	2,101,974	1,279,807

25 Due to other banks

	2004	2003
Items in the course of collection from other banks	195,344	456,963
Deposits from other bank	11,825,601	20,036,025
	12,020,945	20,492,988

26 Other deposits

	2004	2003
Certificates of deposit		
- short-term	-	463,990
- long-term	1,455,190	1,324,212
	1,455,190	1,788,202

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

27 Due to customers

	2004	2003
Corporate customers		
– current/settlement accounts	16,259,394	15,878,656
– term deposits	31,624,665	22,625,488
Government bodies		
– current/settlement accounts	26,397	-
– term deposits	8,401,816	9,040,973
Private individuals		
– current/settlement accounts	80,427,235	69,269,863
– term deposits	93,409,787	95,180,981
	230,149,294	211,995,961

Included above were deposits of SIT 3,758,529 thousand (2003: SIT 2,397,482 thousand) held as collateral for irrevocable commitments under import letters of credit and against loans due to the Bank.

28 Debt securities in issue

	Average interest rate %	2004	2003
EURO medium term bonds due 2004	5	-	295,863
SIT medium term bonds due 2005	TOM + 6	2,080,371	2,097,448
		2,080,371	2,393,311

29 Other borrowed funds

	2004		2003	
	Short-term	Long-term	Short-term	Long-term
Loans from banks				
- In local currency	501,238	-	2,021,801	-
- In foreign currency	12,002,051	30,210,731	-	25,541,795
	12,503,289	30,210,731	2,021,801	25,541,795
	42,714,020		27,563,596	

30 Other liabilities, including tax liabilities

	2004	2003
Accrued interest	4,161	7,493
Amount waiting transfer to deposits accounts	1,415,458	1,545,975
Deferred income	187,866	227,492
Provisions for off balance sheet exposure (Note 32, Note 33)	3,144,974	2,361,583
Provisions for retirement and long service bonus (Note 32)	504,697	487,044
- retirement severance pay	*388,268*	*357,057*
- long service bonus	*28,337*	*28,968*
- holiday not used	*88,092*	*101,019*
Current taxes	72,343	19,524
Creditors	172,347	501,465
Salaries	376,183	367,180
Liabilities for unpaid dividend	32,112	23,625
Other	195,282	285,889
	6,105,423	5,827,270

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

31 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% (2003: 25%).

The movement on the deferred income tax account is as follows:

	2004	2003
At beginning of the year	1,294,655	968,636
Income statement charge	103,971	180,835
Investment securities (fair value remeasurement)	(541,860)	145,184
At end of year	856,766	1,294,655

Deferred income tax assets and liabilities are attributable to the following items:

	2004	2003
Deferred income tax liabilities		
Trading securities	357,626	474,711
Provision for loan losses	426,941	133,664
Available-for-sale securities	260,302	802,160
	1,044,869	1,410,535

Deferred income tax assets	2004	2003
Provision for losses on off - balance sheet liabilities	68,050	-
Retirement and other employee benefits	120,052	115,880
	188,102	115,880

The deferred tax charge in the income statement comprises the following temporary differences:

	2004	2003
Retirement and long service bonus	(4,171)	(115,880)
Provisions for loan losses	303,719	133,664
Provision for losses on off - balance sheet liabilities	(78,492)	-
Valuation of trading securities	(117,085)	163,051
	103,971	180,835

32 Provisions for liabilities and charges

	Provisions for off-balance sheet exposures (Note 33)	Provisions for retirement and long service bonus
At 31 December 2003	2,361,583	487,044
Additional provisions	783,391	26,122
Charged to income statement (Note 10)	783,391	26,122
Utilized provision	-	(8,469)
At 31 December 2004	3,144,974	504,697

According to Slovenian legislation employees retire after 40 years of service. At the time of retirement the retiring employee who has fulfilled certain statutory conditions is entitled to a lump sum of SIT 1,109 thousand.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

33 Contingent liabilities and commitments

Legal proceedings. As at 31 December 2004 there were not significant legal proceedings outstanding against the Bank.

Capital commitments. At 31 December 2004 the Bank had no capital commitments (2003: nil).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts by the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank’s off-balance sheet financial instruments that commit it to extend credit to customers.

	2004	**2003**
Guarantees and standby letters of credit	15,521,176	10,278,734
Documentary and commercial letters of credit	2,642,486	2,789,805
Commitments to extend derivative contracts	241,775	326,238
Commitments to extend credit:		
– Original term to maturity of one year or less	40,588,773	40,415,483
– Original term to maturity of more than one year	6,986,275	3,774,600
	65,980,485	**57,584,860**
Provisions for off-balance sheet exposures	(3,144,974)	(2,361,583)
	62,835,511	**55,223,277**

Assets pledged. Mandatory reserve deposits are held with Bank of Slovenia in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations.

Pledging investment securities as collateral arises from the agreement on a special liquidity loan that the Bank shall, on the call of the Bank of Slovenia, acquire from it, and then extend it under terms and conditions it lays down, to the Bank that has been selected by the Bank of Slovenia. In the case that this special liquidity loan is taken, the Bank shall pledge first class securities. In 2004 this facility was not used.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

33 Contingent liabilities and commitments (continued)

	Asset		Related liability	
	2004	**2003**	**2004**	**2003**
Balances with central banks	-	3,024,949	-	-
Investment securities (Note 19)	500,000	735,000	-	-
	500,000	3,759,949	-	-

34 Ordinary shares, share premium and treasury shares

	Number of shares	Share capital	Share premium	Treasury shares	Total
At 31 December 2003	531,359	5,064,890	877,625	(158,148)	5,784,367
At 31 December 2004	531,359	5,064,890	877,625	(158,148)	5,784,367

The total authorised number of ordinary shares at year-end was 531,359 (2003: 531,359) with a par value of SIT 10,000 per share (2003: SIT 10,000 per share). All issued shares are fully paid.

In the normal course of its equity trading and market activities, the Bank buys and sells its own (treasury) shares. This is in accordance with the Bank's Articles of Association and complies with all aspects of Slovenian Law and the requirements of the Ljubljana Stock Exchange. These shares are treated as a deduction from shareholders' equity. Gains and losses on sales of own shares are charged to the share premium account. The total number of treasury shares at the end of 2004 was 13,003 shares (2003: 13,033 shares).

35 Reserves

	2004	**2003**
Legal reserves	1,387,668	1,157,333
Statutory reserves	20,200,956	17,895,290
General banking reserve	1,171,130	1,171,130
Revaluation reserves	4,658,571	3,690,247
	27,418,325	23,914,000

Movements in reserves were as follows:

	Legal reserve	Statutory reserve	General banking reserve	Revaluation reserve
At 31 December 2002	944,787	14,401,928	1,122,145	3,341,186
Net gains/(losses) from changes in fair value	-	-	-	349,061
Increase of treasury shares fund				
Transfer from general banking reserve	-	-	48,985	-
Transfer from retained earnings	212,546	3,493,362	-	-
At 31 December 2003	1,157,333	17,895,290	1,171,130	3,690,247
Net gains/(losses) from changes in fair value	-	-	-	968,324
Transfer from retained earnings	230,335	2,305,666	-	-
At 31 December 2004	1,387,668	20,200,956	1,171,130	4,658,571

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

35 Reserves (continued)

In accordance with local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable legal reserve until such time as this reserve represents 200% of the share capital of the Bank. In accordance with Bank's Articles of Association, 40% of net profit of the Bank after distribution to legal reserve is required to be transferred to statutory reserves.

In addition, the Bank makes an appropriation to a general banking reserve for unforeseeable risk and future losses. General banking reserves can be distributed following approval by the shareholders in the general meeting.

The Bank has SIT 2,625,817 thousand available for distribution at 31 December 2003 (2003: SIT 2,393,631 thousand).

36 Reserves for general banking risk

	2004	2003
At 31 December 2003	1,350,175	1,350,175
Additional reserve transfer from general reserves	-	-
At 31 December 2004	1,350,175	1,350,175

37 Dividends per share

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 8 June 2005, a dividend in respect of 2004 of SIT 4,500 per share (2003: SIT 3,500 per share) amounting to a total of SIT 2,333 million (2003: actual SIT 1,814 million) has been determined. The financial statements for the year ended 31 December 2004 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2005.

38 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	2004	2003
Cash and balances with central banks (Note 13)	3,313,577	4,193,111
Treasury bills and other eligible bills (Note 14)	3,521,985	5,600,857
Due from other banks (Note 15)	30,005,682	22,857,549
Trading securities (Note 16)	126,403	2,103,620
	36,967,647	34,755,137

39 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

39 Related party transactions (continued)

	Directors		Major shareholders	
Type of related party	**2004**	**2003**	**2004**	**2003**
Loans				
Loans outstanding at beginning of year	166	21,358	12,709,192	9,547,838
Loans issued during the year	1,000	1,000	49,680,962	87,723,019
Loan repayments during the year	(1,166)	(22,192)	(49,463,179)	(84,561,665)
Loans outstanding as at end of the year	-	166	12,926,975	12,709,192
Interest income earned	9	441	550,944	356,440

No specific provisions have been recognised in respect of loans given to related parties (2003: nil).

	Directors 2004	Directors 2003	Major shareholders 2004	Major shareholders 2003
Deposits				
Deposits at beginning of year	321,508	447,143	14,878,202	18,427,510
Deposits received during the year	929,434	357,377	36,523,817	119,103,608
Deposits repaid during the year	(1,039,809)	(483,012)	(22,152,151)	(122,652,916)
Deposits at end of year	211,133	321,508	29,249,868	14,878,202
Interest expense on deposits	25,629	21,341	669,407	728,692
Other revenue – fee income	-	-	116,873	120,109
Guarantees issued by the Bank and commitments	-	-	4,087,873	1,307,880

Directors' remuneration

A listing of the members of the Management Board is shown on page 9 of the Annual Report. In 2004 the total remuneration of the directors approximated SIT 172,706 thousand (2003: SIT 145,956 thousand).

40 Acquisitions

On 19 January 2004 the Bank acquired 100% of the share capital of a small finance company in Slovenia. The acquired company contributed operating income of SIT 258,636 to the Bank for the period from 19 January to 31 December 2004.

The details of the assets and liabilities acquired and goodwill arising are as follows:

Cash and cash equivalents	11,555
Loans and advances to customers	2,337,134
Other assets	341,300
Due to customers	0
Other liabilities	(2,353,125)
Goodwill (Note 20)	217,020
Cost of acquisition	553,884
Less: Cash and cash equivalents in subsidiary acquired	(11,555)
Cash outflow on acquisition	(542,329)

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

41 Post balance sheet events

Banka Koper as a financial intermediary for financial leasing

Banka Koper requested the Bank of Slovenia for the authorisation to provide the services of a financial intermediary for financial leasing. The Bank of Slovenia examined the presented documentation and conducted a targeted on-site examination of the operations of Banka Koper d.d. on 10 January 2005. In terms of risk management and control that Banka Koper d.d. has in place including the staff, technical and organisational resources the Bank received on 24 February 2005 autorisation to engage in the intermediation of financial leasing.

Banka Koper ready to offer new funds

The Securities Market Agency has accorded Banka Koper the right to offer nine new mutual funds, directed by Luxembourg-based asset management company SanPaolo. Banka Koper, will begin offering the funds on 27 June 2005. Three of the funds have been listed as branch funds and will invest in industry, pharmacy and high technology. Three others have been listed as regional funds and will invest in North America, the EU and in euro zone countries. The last three funds will invest in long-term, medium-term and short-term debentures.

42 Reconciliation of net profit and shareholders equity from local standards (SAS) to IFRS

	2004	2003
Net profit under local standards	**4,695,652**	**4,250,916**
Amortisation of negative goodwill *(not recognised under SAS)*	(149,043)	(174,860)
Profit/loss of Finor under IAS *(not consolidated for SAS purposes)*	261,796	-
Exchange differences on derivatives (*not recognised under SAS*)	(407)	1,023
Remeasurment of loans to customers to their fair value (*adoption of IAS 39 not recognised under SAS*)	1,214,876	492,890
Remeasurment of off balance sheet exposure to fair value *(adoption of IAS 39 not recognised under SAS)*	(313,969)	41,769
Remeasurment of dealing securities to their fair value *(adoption of IAS 39 not recognised under SAS)*	(468,341)	652,203
Retirement and long service bonus	(16,685)	(463,521)
Deferred tax charge *(not recognised under SAS)*	(103,970)	(180,835)
Net profit under IFRS	**5,119,909**	**4,619,585**
Net profit under local standards (SAS)	4,695,652	4,250,916
Total adjustments	424,257	368,669
Net profit under IFRS	**5,119,909**	**4,619,585**
Shareholders' equity under local (SAS) standards	**35,792,925**	**32,674,392**
Share premium *(the difference recognised under IFRS)*	(648,663)	(648,663)
Treasury shares *(taken as diminution of share capital under IFRS)*	(158,148)	(158,148)
Retirement and long service bonus *(not recognised under SAS)*	(360,155)	(347,641)
Valuation of loans due to adoption of IAS 39 *(not recognised under SAS)*	1,280,825	369,668
Valuation of off balance sheet exposure due to adoption of IAS 39 *(not recognised under SAS)*	(204,150)	31,327
Valuation of investments due to adoption of IAS 39 *(not recognised under SAS)*	-	(656,452)
Valuation of dealing securities due to adoption of IAS 39 *(not recognised under SAS)*	1,072,878	1,424,132
Valuation of AFS securities due to adoption of IAS 39 *(not recognised under SAS)*	662,488	350,621
Valuation of originated securities due to adoption of IAS 39 *(not recognised under SAS)*	886,235	886,231
Amortisation of negative goodwill *(not recognised under SAS)*	432,225	581,268
Transfer of M banka profit *(the difference in profit between SAS and IFRS)*	216,437	216,437
Revaluation of intangible fixed assets *(not recognised under IFRS)*	(93,191)	(93,191)
Reserves for general banking risk *(not recognised under shareholder's equity in SAS)*	1,350,175	1,350,175

Shareholders' equity under IFRS	**40,229,881**	**35,980,156**
Shareholders' equity under local standards (SAS)	35,792,925	32,674,392
Total adjustments	4,436,956	3,305,764
Shareholders' equity under IFRS	40,229,881	35,980,156

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Report of the auditors

To the Members of Banka Koper d.d., Koper

We have audited the accompanying consolidated balance sheet of Banka Koper d.d. and its subsidiary (the Group) as of 31 December 2004 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages xx to xx are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statement give a true and fair view of the financial position of the 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.

PricewaterhouseCoopers

22 April 2005
Ljubljana