Banka Koper d.d. Koper

Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

Koper, June 2006

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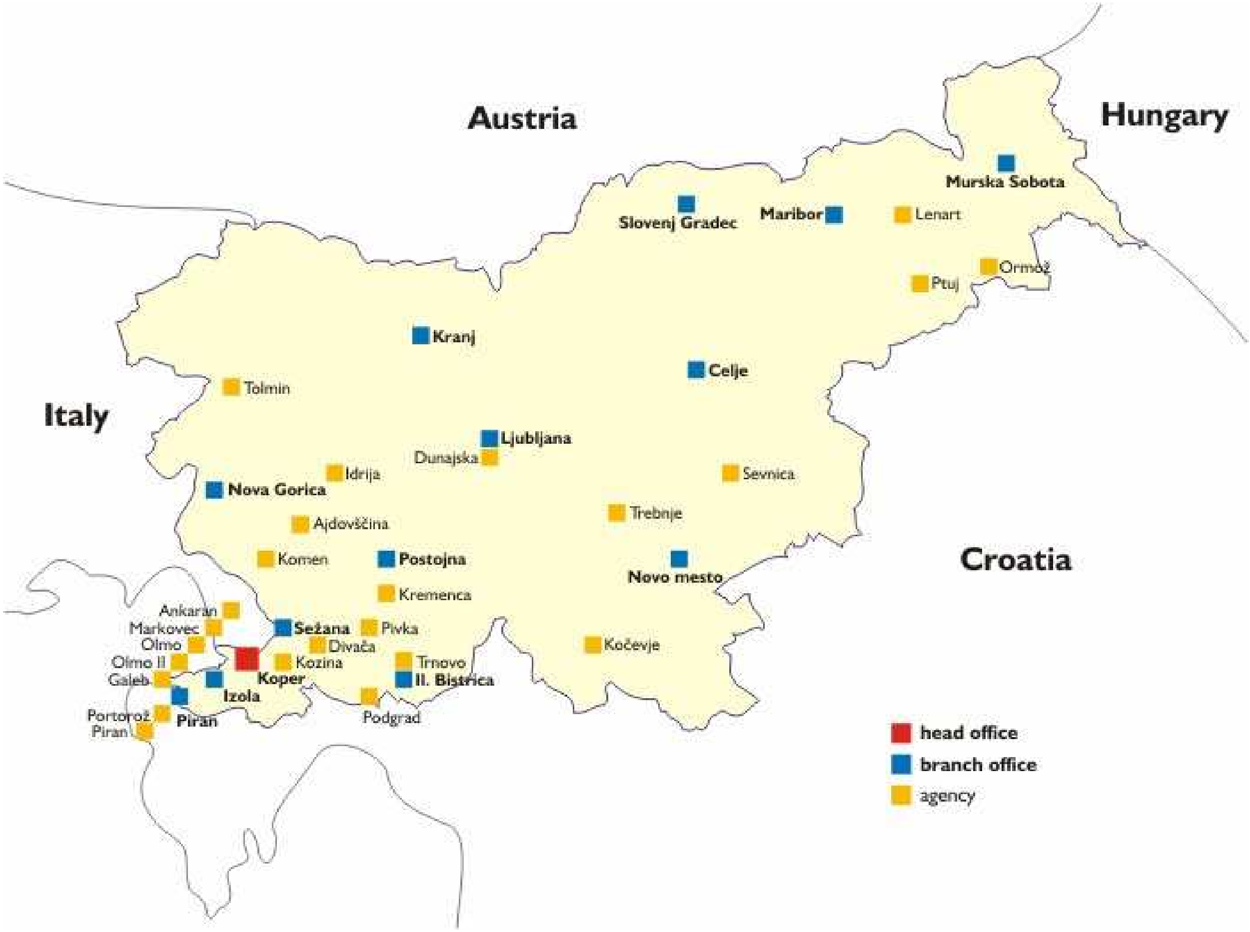
GENERAL INFORMATION

INTRODUCTION OF BANKA KOPER



Banka Koper is a universal bank with the full range of banking services: commercial banking, investment banking, custody banking, private banking, international operations and financial and operating leasing through its subsidiary Finor Leasing d.o.o.

Since 2002, Banka Koper is a part of the banking group SanPaolo IMI, one of the leading banking groups in Italy.

International ratings

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

The international rating agencies - Fitch Ratings and Capital Intelligence - confirmed in 2005 the rating awarded to Banka Koper and it is a testimony to the Bank's stable operating activities, its strong regional presence and capital adequacy, as well as the link with the strategic shareholder Sanpaolo IMI, rated as AA-.

The prospect for the Bank's long-term rating remains stable.

BANKA KOPER – KEY EVENTS OVER THE PAST FIFTY YEARS

1955 – Foundation of Istrska komunalna banka.
1961 – Komunalna banka Koper is established to serve banking needs of several municipalities.
1965 – Venturing into new lines of business results in establishing Kreditna banka Koper – a commercial bank with a growing branch network.
1978 –LB Splošna banka Koper is created by the amalgamation of Kreditna banka Koper and the branch office of Ljubljanska banka in Koper; the new bank is part 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 bank group parented by Ljubljanska banka and develops the first Slovenian payment card – Activa.
1994 –Splošna banka Koper is a fully-licensed bank authorised to provide all banking services at home and abroad.
1997 – New corporate image and new name – Banka Koper. The Bank sets up a banking group with M banka.
1998 – The branch network expands and high-profile projects are launched – electronic banking The i-Net banka, client information system, migration of payments for legal entities to the Bank and information system overhaul.
1999 – Banka Koper takes over M banka.
2000 – The Bank's shares are listed on the Ljubljana Stock Exchange.
2001 – Preparations start for the strategic alliance with the Sanpaolo IMI Group.
2002 – The Bank joins the Sanpaolo IMI Group – its majority shareholder. The sale of Finor is finalised and the Bank's branch offices spread to all Slovenian regions.
2003 – The Bank's shares are delisted from the LjSE's organised market. The Bank is authorised to provide custody services for management companies i.e. mutual funds managed by them.
2004 – New lines of business: marketing units of the Slovenian mutual funds, cross-selling insurance products (bankassurance). Following a spin-off, Finor d.o.o. is bought back for leasing transactions.

STATEMENT OF THE PRESIDENT OF THE MANAGEMENT BOARD

For Banka Koper the financial year 2005 was successful. The Bank managed to bolster its market position, it posted sound financial results from operations, it stepped up tapping into the synergy effects of the association with the SPIMI Group. At the same time, the Bank was successfully carrying out the activities in relation to Slovenia's entry into the European Union.

It all engaged substantial human and material resources, since their efficiency is the cornerstone of the Bank's successful business, growth and development.

As regards the world economy, the year 2005 was branded by different pace of economic developments in various segments. No reliable forecast as to the outlook can be made. One should be particularly wary of predicting the fortunes of economic prospects within the European Union – the economic area of major importance to Slovenia as its most intensive and best-developed economic partnership. It is what demands from Slovenia's economy additional attention, particularly when it comes to planning export activities and bolstering competitiveness.

Despite the relatively strained position, the Slovenian economy delivered good results in the year 2005. The leading international institutions have confirmed it. The country's GDP has maintained a relatively high growth rate and the trends of the balance of payments and the external trade have been consistent with the maintained stability of the tolar exchange rate.

By cutting back the inflation rate to 2.5 per cent, Slovenia has fulfilled the last so-called convergence criterion for adoption of the euro. Subsequently, there are no barriers standing in Slovenia's way to enter the euroland using the single currency as its legal tender as of 1 January 2007.

However, there is the other side of the coin and the open issues relating to certain structural imbalances in the area of economic and social infrastructure, social policy, and the groundwork under commitments made within the framework of the Lisbon strategy. Slovenia is not alone in its effort to come up with the right recipe; numerous Member States are grappling with similar issues that commonly lead to a series of social frustrations. And Slovenia is no exception.

The Slovenian financial market continued also in the year 2005 to be flexible in adjusting to new circumstances created in the wake of the country's entry into ERM II, new international standards of financial reporting, and the recommendations given under the New Capital Accord – Basel II. National legislation followed suit and as a result there was a host of administrative tasks to keep the Bank's staff busy often at the expense of dedicating time and energy to commercial activities.

During the year under review, Slovenia's banks increased the growth rate and improved performance ratios. The figures confirm that at least for the time being, credit institutions have managed to ride the wave of changes against the backdrop of rising pressures to lower interest margins, we well as fees and charges. Furthermore, the tug-of-war among banks and other financial institutions continued as they were trying to gain a competitive edge. Alternative financial investments not only remained attractive but gained more strength. It is clear that particular savers are prepared to assume more risk at least for a portion of their savings, if higher yields are promised.

The combined total assets of the Slovenian banks increased by 21 per cent, posting the strongest yearly hike over the last 10 years. Clearly, it was the increased household and corporate borrowing from the domestic banks, which have been successful in competing with the foreign ones that contributed to this rise. To meet the demand, the banks looked across the border to tap into foreign sources of financing, particularly as after Slovenia's accession to the European Union, cross-border financing was easier and cheaper to arrange.

In the year 2005, Banka Koper was successfully carrying out the tasks pencilled in its business and development plans. It was strengthening and developing commercial activities, modernising technological processes and information systems, it was aligning its organisational structure to new needs, and implementing new standards for the management and control of risks, and ensuring secure operations. The Bank invested heavily also in training and additional education of its employees.

The Bank's total assets jumped by 30 per cent to 438 billion tolars in 2005. On the assets side of the balance sheet loans and advances to corporate clients rose most vigorously, followed by lending to individuals. Both are a consequence of the Bank's strategic orientation to explore this avenue in order to strengthen its ties with the real sector. There was also a noticeable hike in investments in securities available for sale, as a result of exploiting market opportunities giving a more prominent place to this line of business.

Among the sources of funding, the item "due to cross-border banks" catches the eye, as well as a moderate growth in deposits from the non-banking sector. It is the trend typical of the Slovenian banks, and it is even more pronounced at Banka Koper.

As regards the increase in lending and deposit-taking operations, the strengthening of long-term sources of funding and the richer range of cross-border mutual funds marketed by Banka Koper, positive synergies provided for by the co-operation within the framework of the Sanpaolo IMI Group have come to the forefront. Consequently, Banka Koper has significantly increased responsiveness and competitiveness of its offering.

Payment transactions performed by Banka Koper also enjoyed a high growth rate in 2005. Also in this line of business, the Bank was successful in its effort to increase its market share.

In the area of the card business, the Bank has stayed on track and keeps pace with the requirements for the implementation of security standards and the expansion of functionalities. By introducing the smart card, the Activa card system remains with more than one million issued cards, the leading card system in Slovenia, and the brand that clearly distinguished Banka Koper and other banks – members of the Activa card group.

Other forms of electronic banking have been developing continuously and the Bank has been designing new offers and advanced solutions while taking into account the highest international standards of security and functionality – all in effort to further cement its foothold in the market.

The Bank boosted in the year 2005 its opportunities for growth over the following years in the field of custody banking and leasing business, the latter provided through its wholly-owned subsidiary - Finor Leasing.

The successful pursuit of commercial activities was also reflected on favourable financial results from operations. The financial statements for 2005 were examined by the independent auditor that also gave the unqualified opinion.

The Bank's profit before taxes in the year 2005 was 5.397 billion tolars. The profit hike is a result of the increased volume of operations, cost control and also the capital gains generated by the disposal of the Bank's equity holdings within the framework of the divestiture programme. In the year 2005, the Bank managed to wrap up a portion of the tasks arising from the programme, which has been going on for several years.

Among the numerous development tasks, in the year 2005 the priority was given mainly to the strengthening of the retail network, traditional services, upgrading computer and technological support for ensuring security and reliability of operations, stepping up responsiveness in the area of commercial activities, as well as for business processes administration and management.

Also in the year 2005, the list of priority tasks contained education and training of the Bank's staff.

Banka Koper engaged with particular sensibility to its sponsor and donator activities during 2005 spurred by the fact that were connected with marking the 50th anniversary of its existence. We are pleased to say that the celebrations were a success and they greatly boosted the Bank's reputation and its role in the community and business environment. On that occasion Banka Koper also published its Ethical Code for all employees and its environment as a tool for sending a more straightforward message about its mission and the steps taken in order to arrive at the values it advocates.

The achievements of Banka Koper in the business and development area, and in image-building during the year under review, are undoubtedly a sound basis for the forthcoming periods, particularly for the year 2006. Numerous tasks that fall within the field of commercial, back-office and support activities will be a key test for the Bank's capability to face new challenges. The list of tasks that will call for a more intensive alignment of technological and information system processes includes the further expansion of the retail network, the launching of new products and services, the preparations for the changeover to the euro, the transition to the new accounting standards, the divestiture under which the Bank is to sell off its equity holdings, and new reporting requirements.

True as it is that at the Bank we are counting also with the continuing transfer of experience and solutions of the SPIMI Group, there is fundamental responsibility to homegrown sources of financing. With hindsight, the past experiences, qualifications, and the extent of its preparedness seem adequate to say with confidence that the outlook for the performance of Banka Koper in 2006 is bright.

REPORT 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 2005,
- 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 2005

In the course of the financial year 2005, 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 two 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 member of the Supervisory Board Mr. Paolo Haim gave notice on 6 April 2005 on his position on the Supervisory Board motivated by his retirement. Acting on the proposal made by the Supervisory Board, the General Meeting of Shareholders of Banka Koper d.d. elected on 8 June 2005 a new member of the Supervisory Board Mr. Michele Raris.

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 2005 and the fulfilment of the goals set out within the policy framework,
- examining the annual report on the carrying out of internal control and the measures that arise from the Money Laundering Prevention Act for 2004,
- examining and approving the Annual Report of the Internal Audit Department for 2004,
- verifying the activities and reviewing the findings of the Internal Audit Department during the current year,
- examining and approving the business plan of Banka Koper for the year 2006,
- examining and approving the plan of internal audit assignments for the year 2006,
- 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 2005 determined on the basis of unaudited financial statements was duly examined by the Supervisory Board in 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 2005

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

a p p r o v e s a n d a d o p t s

Annual Report of Banka Koper d.d. for the Financial Year 2005.

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 2006 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. 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, 3 May 2006

Chairman of the Supervisory Board

Giuseppe Cuccurese

BODIES OF CORPORATE GOVERNANCE

Supervisory Board

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. The composition of the Supervisory Board changed in 2005 when Mr. Paolo Haim, Member of the Supervisory Board, resigned to his function due to his retirement. The Annual General Meeting of Banka Koper elected a new member, Mr Michele Raris.

Giuseppe Cuccurese	Chairman, SanPaolo IMI S.p.a.
Janko Kosmina	Vice Chairman, Istrabenz Koper d.d.
Flavio Gianetti	Member, SanPaolo IMI S.p.a.
Michele Raris	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

The Management Board is composed of three members. The Management Board has two advisers.

Vojko Čok	President
Corrado Casalino	Deputy President
Igor Kragelj	Member

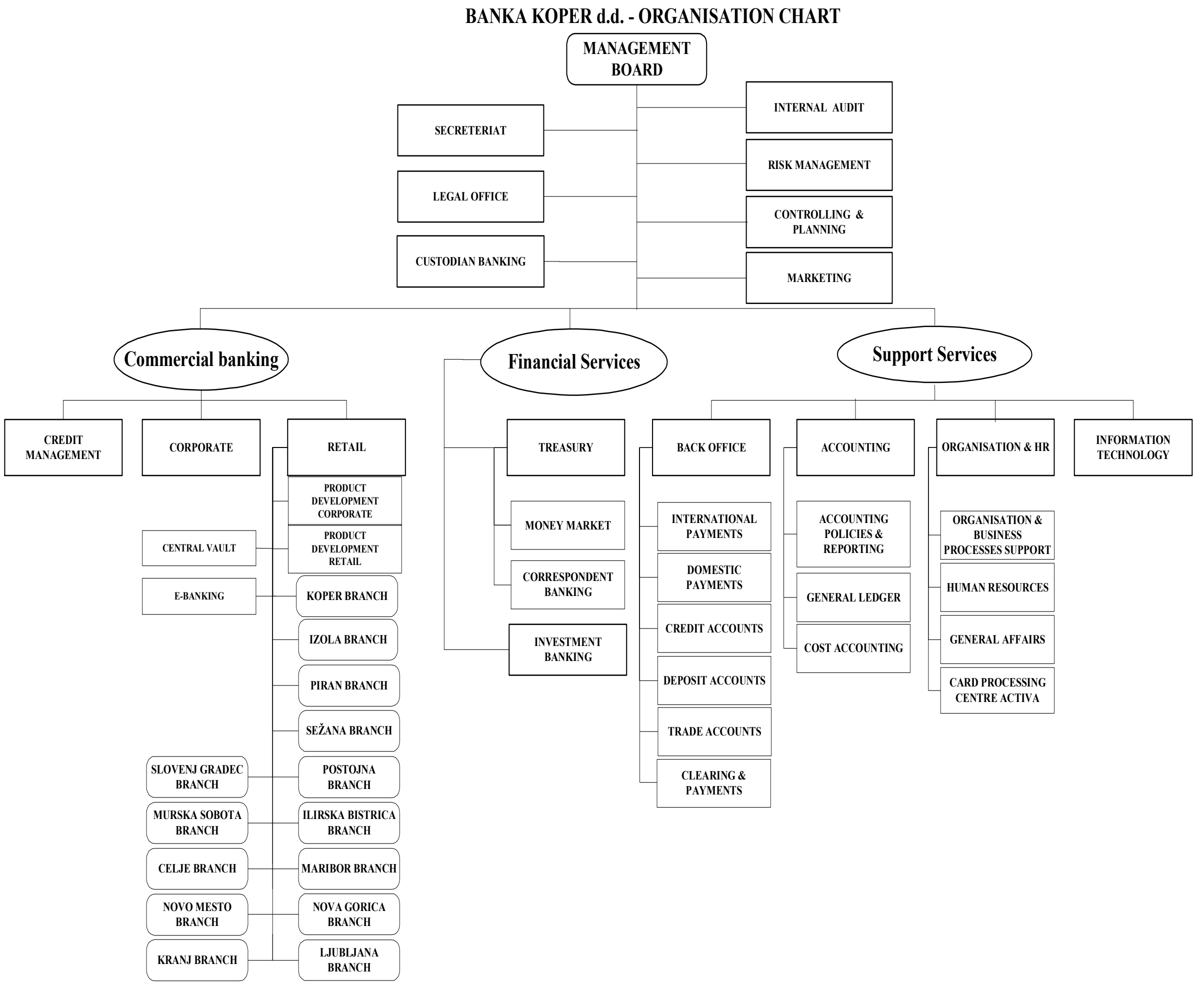
Advisers to the Management Board

Aleksander Lozej	Corporate affairs
Viljem Semolič	Compliance function

Management – directors of divisions and heads of departments

Boris Bjelica	Back-Office
Tatjana Faust	Treasury
Rado Grdina	Organisation and HR
Dario Radešič	Retail Division
Mojca Plahuta	Information Technology
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 Controlling
Ladi Škrinjar	Risk Management

ORGANISATIONAL CHART



GENERAL ECONOMIC AND BANKING ENVIRONMENT

In 2005, Slovenia enjoyed another year of favourable economic developments. The Bank operated in an environment characterised by both internal and international factors. Among the last, we may state in particular the expectations for vigorous economic growth in Slovenia's most important trade partners, which proved to be too optimistic and the movement in oil prices in the international markets.

As for more prominent internal factors, Slovenia pursued policy designed to maintain currency stability and to curb the rate of inflation, which was reduced to an average of 2.5 per cent, against the EU average of 2.2 per cent. Consequently, Slovenia meets the Maastricht criteria of price stability. Since Slovenia already meets the fiscal convergence criteria, and the criterion for interest rates and exchange rate stability, the adoption of the euro at the beginning of 2007 is a realistic expectation.

Growth in domestic economic activities in 2005 was in line with the estimates and notched 3.9 per cent. GDP growth was characterised by a high growth in exports, which exceeded imports growth. Therefore, the trade surplus in the exchange of goods and services contributed as much as 2.9 percentage points of 3.9 per cent of GDP growth. Whereas consumer spending grew in 2005 at the rate of 3.2 per cent, private investments fell by 3 per cent, stripping GDP growth of 1.7 percentage points.

As regards the money market, in 2005 corporate and retail borrowing marched strongly, while growth in savings of individuals in banks remained sluggish in line with the trend experienced over the past few years. Companies, other financial organisations, individuals and the government borrowed in 2005 from domestic banks 21.6 per cent more in terms of volume than a year earlier, thus posting the strongest growth over the last ten years (net direct cross-border borrowing slowed down in 2005). It was mostly fuelled by growth in foreign currency borrowing, that accounted for nearly 65 per cent. At year-end, loans denominated in foreign currency accounted for 43.1 per cent of all loans taken by the non-banking sector or 11.6 percentage points more than a year earlier.

In contrast with a hike of borrowing, savings of individuals held in banks in 2005 more than halved last year in real terms and hit the rock bottom with 3.4 per cent. The volume of the funds invested by individuals in mutual funds continued to grow and at year-end totalled 13.3 per cent of individuals' savings in banks.

BANK OPERATIONS

Lending operations

In 2005, lending to the non-banking sector was influenced by a stable foreign exchange of the tolar against the euro, the convergence with the Euro rates, and also by increased competition among Slovenian banks.

The Bank was constantly adapting its offer to the changed Slovenian macroeconomic situation. In 2005, the Bank brought to an end the TOM indexation of loans (the base interest rate that incorporates the inflation rate) and boosted its offer of loans denominated in foreign currency.

Gross lending to the non-banking sector increased by 31 per cent i.e. by 62,701 million tolars in comparison with the figure posted for 2004. The high growth lead to the increased market share of loans to customers from 6.22 per cent at the end of 2004 to 6.54 per cent at the end of 2005.

In terms of the maturity structure, long-term lending prevailed over short-term indebtedness of the Bank's customers thus reversing the trend of the past years. As regard the currency structure the increase of loans in foreign currency (especially denominated in Euro) changed significantly the proportions. Outstanding loans in local currency accounted for 51 per cent of total loans at the year-end 2005, while a year before the share was of 71 per cent.

In terms of the geographical segmentation, the Bank's lending operations still rely heavily on the Slovenian residents as merely 3 per cent of all loans to the non-banking sector were granted to non-residents.

Lending to *legal persons* including *government bodies (general government)* amounted to 203,851 million tolars i.e. 77 per cent and it makes up the biggest portion of loans extended to the non-banking sector, with an increase of 36 per cent.

Loans to *households*, including private individuals and small entrepreneurs amounted to 61,733 million tolars i.e. 23 per cent of total loans to the non-banking sector. Compared to 2004, loans to households increased by 8,900 million tolars or 17 per cent. Also in 2005 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 loans granted to households was boosted mainly by lower interest rates and residential property development that gained momentum.

In line with Bank's business strategy, particular attention was paid also in 2005 to prudential standards on risk taking. Commitment to safe and sound business means that the Bank was carefully scoring customers' creditworthiness and consistently observed the credit classification when earmarking mandatory specific provisions.

Deposits

In 2005, the Bank increased deposits placed by the non-banking sector (due to customers) by 14,645 million tolars i.e. 6.4 per cent year-on-year. The relatively modest customer deposits growth reflected the falling interest rates and the consequent changed attitude of savers, often looking for alternative types of more profitable although potentially riskier types of investments. As in the case of lending to customers, the Bank abolished indexation with TOM on deposits placed by customers.

The market share of customer deposits was 6.37 per cent and 6.49 per cent as at 31 December 2005 and 31 December 2004 respectively. The market share of deposits payable on demand and long-term deposits dwindled, while the Bank managed to bolster the share on short-term deposits.

Deposits placed by *legal persons* including *government bodies* at the end of 2005 amounted to 56,947 million tolars and were by 1 per cent higher than at the end of 2004. Both legal persons and general government, save mostly on short-term and in tolars.

Deposits from *households* including private individuals and small entrepreneurs at the end of 2005 totalled 187,847 million tolars, i.e. 8 per cent more year-on-year.

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

Banka Koper has been a pro-active player in the voluntary supplementary pension insurance system since 2001 when it established the Open-ended Mutual Pension Fund of Banka Koper d.d. (OVPS). The OVPS is intended both for collective and individual supplementary pension insurance.

As at 31 December 2005, the OVPS posted total assets of 2,838 million tolars, which means a 42.9 per cent growth with regard to year-end 2004. At the end of 2005, the OVPS had 4,796 members or 7.6 per cent more than a year earlier.

Unit asset value increased in 2005 by 3.5 per cent and the achieved annual yield has been higher than the statutory guaranteed yield. Consequently, the Bank as founder and fund manager has not been exposed to liabilities arising from the payment of the difference to up to the guaranteed yield.

Marketing mutual funds

As a supplement to its offer of savings products, the Bank is marketing some Slovenian mutual funds, which totalled 246 million tolars flow in 2005.

A novelty in the banking offer are undoubtedly the mutual funds of Sanpaolo International Fund (SPIF). Banka Koper started with the marketing of foreign mutual funds in June 2005. The offer contained nine mutual funds at first, and in the beginning of 2006 other 12 new funds of Sanpaolo International Fund were added. In 2005, the aggregate value of inflows in the SPIF funds, sold through Banka Koper, totalled 552 million tolars.

Custody banking

In 2003, Banka Koper started providing custody services. As at the end of 2005, Banka Koper signed contracts for the provisions of custody services with mutual funds, investment companies and pension funds.

Leasing

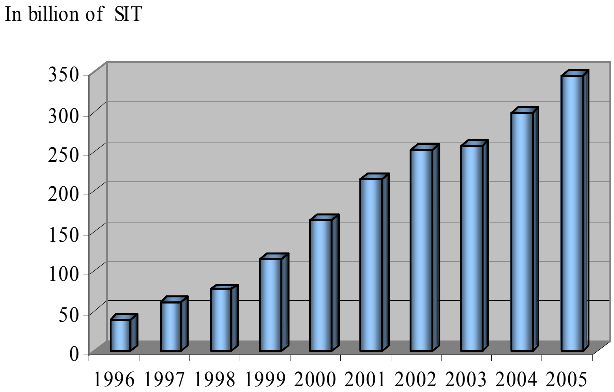
Banka Koper expanded in 2005 its offer and started marketing lease services through the business network in co-operation with its subsidiary - Finor leasing d.o.o. Individuals, sole proprietors and legal entities may conclude financial leasing contracts in all branch offices of Banka Koper across Slovenia. When entering into leasing contracts, the Bank acts on behalf of and for the account of Finor leasing d.o.o.

Card business in the Activa system

Banka Koper issued the first Slovenian payment card Activa, 13 years ago. The domestic Activa was eventually joined by the international credit and debit cards MasterCard and Visa International, and its development attracted also other banks, thus contributing to create one of the strongest card systems in Slovenia.

The year 2005 was a landmark year as the cards with a magnetic strip were replaced by so-called smart cards. All banks completed the migration of issued cards and started to issue smart cards Activa-Maestro and Activa-MasterCard. Visa smart cards will be issued in 2006. In addition to the card issuance, the banks completed successfully also the upgrading of POS terminals so that transactions using a chip on the Maestro and MasterCard smart cards could be made.

Payment cards Activa turnover



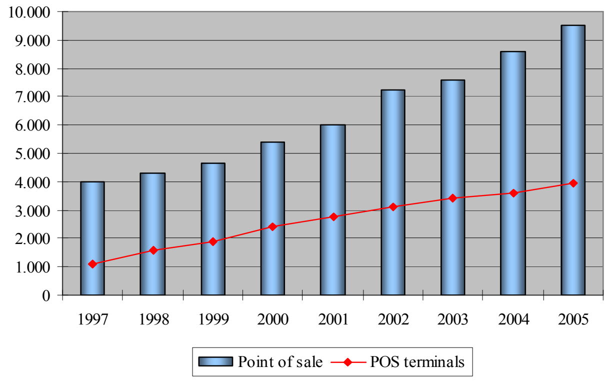
The number of issued cards in the system rose in 2005 to 1.05 million, and in comparison with the year 2004 it was by approximately 4 per cent more. The increase can also be attributed to the fact that one additional Slovenian bank joined the Activa system in 2004. With regard to the volume of transactions by payment cards, the Activa system topped 345 billion tolars in 2005 or by 15 per cent more in comparison with the previous year.

Since its establishment, the Activa system has built a widespread network of POS-terminals and points of sale, which accept Activa, Eurocard/MasterCard, Visa, Maestro and Visa-Electron cards. The number of points of sale of the Activa system keeps rising on average by 10 per cent per year.

Card transactions in Banka Koper

Banka Koper continued in 2005 to play a proactive role in the field of card business in Slovenia and abroad. In 2005, it successfully launched on the market the first banking-business card Activa-Visa Business Electron. The Bank started in 2005 to replace payment cards with magnetic strips by so-called smart cards, added new functionalities (Securecode for the i-Net Banka and internet stores, web notepad, etc.).

Points of sale and POS-terminals



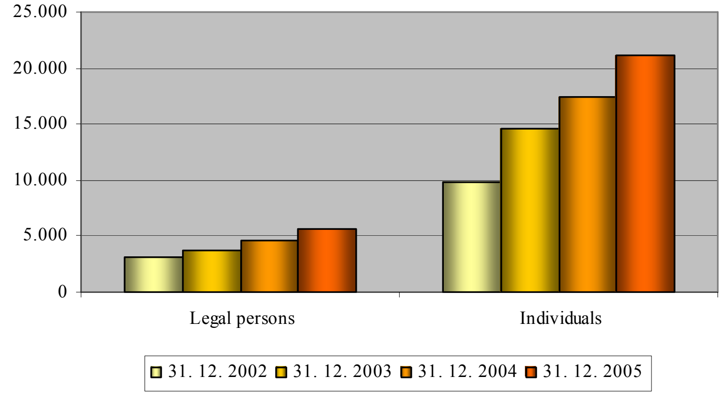
The number of cards increased by 6 per cent in comparison with the year 2004 as the number of issued cards at year-end 2005 totalled 237.000. Transactions topped 100 billion tolars, which means that the banks in the Activa system carried out in aggregate 29 per cent of all card payment transactions, with a 25 per cent the increase in comparison with the year 2004.

In 2005, the Bank increased the presence of points of sale accepting Activa cards by 10.5 per cent i.e. to 9,510 points of sale and 3,969 POS terminals (10 per cent growth year-on-year).

Electronic banking – I-Net Banka

Growth enjoyed by electronic business for individuals and legal entities through the i-Net Banka continued also in 2005. The Bank was successful in launching a new point of entry into the i-Net Banka for individuals by means of a smart cards and SecureCod-a (using only one banking PIN). The new Activa Maestro smart card and a pocket reader of random passwords opened the door to a full-scope mobility, simple use and, above all, a high level of security in the Internet banking. The pocket reader that creates random passwords will be also used in the future for other types of services such as shopping in e-stores and using the telephone bank of Banka Koper – Infotel.

The number of users of The I-Net Bank

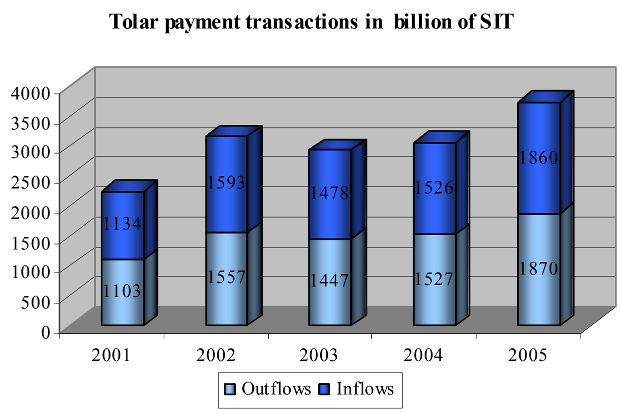


The number of individual users of the I-Net Banka in 2005 increased by 3,711, or 21 per cent year on year, for a total number of users of 21,086, while the number of users in the business sector rose by 1,041, or 23 per cent i.e. year on year, for a total number of 5,581.

As regards the volume of transactions, the Bank witnessed for the second year in a row higher increase in the natural persons segment (individuals) than in the legal entities segment, and namely a hike of 18 per cent growth in the number transactions executed by individuals and 1 per cent growth in number of transactions executed by legal entities. Banka Koper's market share in terms of the number of transactions is 7 per cent and it holds a 6 per cent market share in terms of value in the electronic banking segment.

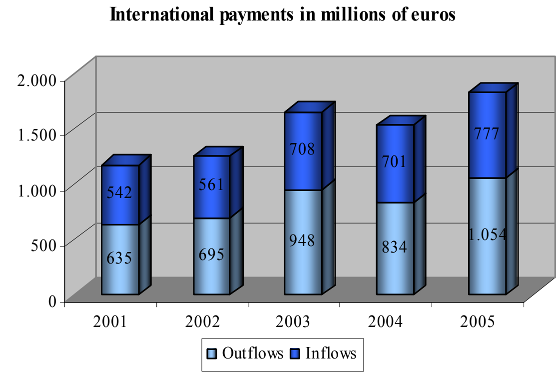
Payment transactions

Tolar payment transactions provided by the Bank to customers are carried out through the Real Time Gross Settlement system (RTGS) and the small value payments system (Giro Clearing). In 2005, the Bank carried out 4.8 million transactions - almost the same as in 2004. The aggregate value of tolar payment transactions in 2005 topped 3,730 billion tolars i.e. 22 per cent more than a year earlier.



As a result of fee cuts and the comfort of doing business from office or home, an ever-increasing number of customers effects tolar payment transactions through electronic channels. In the corporate customer segment, electronic banking channels were used for 95 per cent in value terms and 92 per cent in terms of the physical volume of payment transactions. Through the i-Net Banka for individuals outflows accounted for 16 per cent of the value and 58 per cent of the physical volume of payment transactions.

International payment transactions amounted to 2,710 million euros in 2005, of which outflows and inflows accounted for 49.6 per cent and 50.3 per cent respectively of the aggregate value of international payments.



In 2005, the physical volume measured by the number of transactions topped 156,336 transactions, and in comparison with the year 2004 increased by 13 per cent.

The number of foreign exchange transactions carried out through i-Net Banka was been rising, and in December 2005 in comparison with December 2004, it grew by 27 per cent.

RISK MANAGEMENT

Risk management in Banka Koper is organised in two departments. The Risk Management Department is responsible for monitoring and control of financial and liquidity risks, for measuring operational risk and risk associated with the Bank's credit portfolio, and for maintaining the capital adequacy ratio at the adequate level. The Credit Management Department is responsible for assessing and monitoring credit standing of the Bank's debtors (borrowers). Both departments are directly accountable to the Bank's Management Board, so as to ensure independent risk management in accordance with the guidelines of best banking practice.

The objective of risk management is controlling risk in accordance with the nature and complexity of the Bank's business and ensuring safe and sound operations. The Bank harmonises the methodology and risk management processes with the practice of the SPIMI Group.

Capital and capital adequacy

Capital adequacy is measured by the ratio i.e. the proportion between the Bank's capital and risk-weighted assets in accordance with law and regulations of the Bank of Slovenia. The regulatory minimum ratio i.e. ratio between capital and risk-weighted assets is 8 per cent.

The Bank's capital adequacy ratio as at 31 December 2005 totalled 10,9 per cent. The Bank's Tier 1 capital totalled 36,240 million tolars.

The Bank is preparing for the implementation of the New Capital Accord Basel II. The Bank has been working on the preparations for the new regulatory requirements by putting in place technology for reporting and disclosure of the Bank's operating data in accordance with new regulatory requirements, as well as by harmonising the processes with mandatory standards for operating activities and risk control. For the purpose of calculating the capital adequacy ratio, the Bank will apply the standardised approach both for credit and for operational risks.

Credit risk management and control

Credit standing of non-bank debtors (customers) is determined by the Credit Management Department, while credit rating of banks is monitored by the Correspondent Banking Department. Debtors are graded in accordance with the criteria prescribed for assets classification i.e. claims on debtors and in line with the internal procedures in place for analysing debtors' credit standing.

The Bank controls credit risk directly through credit portfolio assessment or indirectly through the valuation of its investments at fair value, where credit risk is also reflected at fair value. The Bank's credit portfolio comprises all monetary investments/assets and contingencies and commitments, with the exception of investments in securities and capital investments and real property acquired for investment purposes, which are valued at fair value. Exposure arising from concluded deals with derivatives is determined under the replacement cost method.

Investments in the credit portfolio are classified in five groups, where claims on debtors with the highest credit rating or with the adequate collateral of the government are classified in the A group, claims on debtors with the lowest rating in the E group. The Bank's debtors are classified in individual grades i.e. groups with regard to the evaluated ability to repay debts. Based on the classification in credit rating groups and the determination of the extent of repayment for individual segments of debtors, specific provisions for credit risks are established.

The Bank's credit portfolio as at 31 December 2005 shows that as much as 78.4 per cent of all loans, other assets/claims and off-balance sheet contingencies and commitments is classified in the best rating group. Bad and doubtful portfolio (grades C, D and E), weights for an aggregate of 4.8 per cent of all loans, with an average of 41 per cent of provisions made.

Credit risk is managed by capping the largest exposure to a single debtor. The largest exposure to a single debtor and connected persons is limited by law and must not exceed 25 per cent of the Bank's own funds. Large exposure encompasses all claims the Bank has on a single debtor (borrower), carried in the credit portfolio and investments carried at fair value, which are not included in the credit portfolio.

Liquidity risk management and control

The Bank's liquidity is governed by the regulations on the earmarking of the minimum reserve and on the fulfilment of the minimum scope of liquidity to be ensured by the bank. The latter prescribes the minimum amount of liquidity ratios.

Despite relatively complex regulations with regard to minimum liquidity, the Bank monitors liquidity also by means of the internal methodology. The methodology determines minimum liquidity ratios for maturities of up to one month in individual currencies and minimum ratio of the coverage of assets with adequate long-term liabilities. In the event of a stringent liquidity situation, the roles and responsibilities for the adoption of measures to ensure safekeeping the Bank's solvency are defined. The Bank's liquidity position is evaluated by the Risk Management Department and reported to the Management Board.

The Treasury Division is responsible for the fulfilment of the minimum liquidity criteria. At the operational level, the Bank manages liquidity by careful planning of daily liquidity of the Bank and by planning business activities and obtaining long-term sourcing of funding in accordance with the budgeted volume of investments. The Bank's liquidity is ensured also by means of a portfolio of investment-grade securities (from the position of credit risk and liquidity), which can be used (pledged) for borrowing from the central bank. Particular attention is paid to the quality IT support for the provision of accurate and up-to-date information for efficient cash flow planning.

Financial risk management and control

Interest rate risk

The Bank evaluates interest rate risk at the level of the entire interest-earning balance-sheet items and non-interest earning items that otherwise do not bear interest, but their value is implicitly dependent on the, movement in interest rates (currency forwards). Interest risk is measured on a regular basis from two points of view:

- ⇨ from the position of sensitivity of net interest income generated by the Bank on interest rate changes,
- ⇨ from the position of sensitivity of interest-earning net position, as a difference between net current value of interest-earning assets and liabilities, discounted at market rates of interest.

Exposure to interest rate risk is monitored separately for more significant currencies: tolars, EUR, USD and other currencies.

Furthermore, the Bank monitors separately sensitivity market value of bonds held in the portfolio of the Bank's Treasury Division to interest rate changes. Sensitivity of the market value of the Treasury Division portfolio is limited by internal limits taken into account by the Treasury Division for the purpose of bond portfolio management and management of similar long-term instruments held for the purpose of the Bank's liquidity matching.

The Bank matches the exposure to changes in interest rates in the banking environment against interest accrual on investments and interest accrual on sources of financing of those investments. Above all, the time when interest rates on investments/assets and liabilities are changed is matched, so as to render the impact of interest rate changes as neutral as possible. Furthermore, all requirements for collateralising specific long-term investments by means of derivative financial instruments are taken into account.

Currency risk

For the purpose of measuring currency risk, the Bank takes into account the overall position, which is a sum of all investments and liabilities in foreign currency and all concluded and unsettled currency contracts: spot transactions and deals involving derivative financial instruments.

The Bank identifies and measures currency risk on a daily basis as follows:

- ⇨ as a notional open position in individual currencies
- ⇨ as Value at Risk (VAR) for the aggregate exposure for all currencies

Value at Risk is a statistical calculation of the maximum potential loss, which could occur during the subsequent ten working days with a statistical confidence of 99 per cent rate. The evaluation of Value at Risk takes into account the figures for the amount of the open position in an individual currency, volatility of foreign exchange rates and the correlation among currencies.

The Bank manages exposure to currency risk by means of setting:

- ⇨ limits for the maximum allowed open position in individual currencies
- ⇨ limits for the maximum allowed Value-at-Risk

The Risk Management Department controls exposure to currency risk on a daily basis, whereas the Bank's Treasury Division is responsible for asset-liability management (matching) of the position within the framework of set limits.

Market (price) risks

Market risk is associated with the Bank's trading transactions, since gain realised on trading transactions is largely a result of a change in market prices. Trading activities are in the Bank defined as investments of the Investment Banking Department in equity and debt securities, deals involving derivative financial instruments and forex trading.

Market risks inherent in individual activities are managed by putting in place the following limits:

- ⇨ trading position in derivative financial instruments are offset by counter underlying deals. Counterparty risk is calculated as a credit replacement cost changed daily and it is tested whether the determined exposure limits were exceeded.
- ⇨ trading in equity securities (stock) held for trading in the Bank's trading portfolio is subject of daily measurement and controls by the Risk Management Department. Exposures are measured by applying the Value-at-Risk method calculated as 99 per cent statistical confidence and for 10-day horizon. In line with it, a limit is set for value at risk i.e. the maximum allowed potential loss not to be exceeded by the Investment Banking Department in daily trading.
- ⇨ exposure arising from bonds in trading portfolio is measured by sensitivity of the portfolio market value to interest rate changes. Correspondingly, the limit on the highest allowed interest rate sensitivity of the portfolio is set. Credit risk to issuers is limited by the prescribed quality of issuers.
- ⇨ risk inherent in forex trading is controlled in accordance with the point addressing currency risk. Speculative forex trading is limited by capping the maximum trading amount for an individual trader and the maximum loss after which the position must be closed (stop-loss limits).

Quality evaluation and monitoring of limits on trading activities is made with the support of IT applications that enables the Risk Management Department to monitor and control positions at any time. Quality control is also enabled by the organisation and separation of responsibilities between the organisational unit which engages in trading and the organisational unit which settles, records and matches positions arising from trading transactions.

Operational risk management and control

Operational risks are managed at the level of individual business processes as at the level of the Bank, by means of the adequate system for monitoring and analysing losses and by evaluating exposure to operational risk.

At the level of individual business processes, operational risk is managed by means of internal controls system, responsibility sharing and protection of the Bank's information and assets/resources.

Operational risk management at the level of the Bank is put in place in accordance with the methodologies and approaches of the SPIMI Group. Namely, analysing losses incurred as a result of operational risk and quality evaluation of exposure based on questionnaires and the evaluation of the Bank's operational environment.

THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

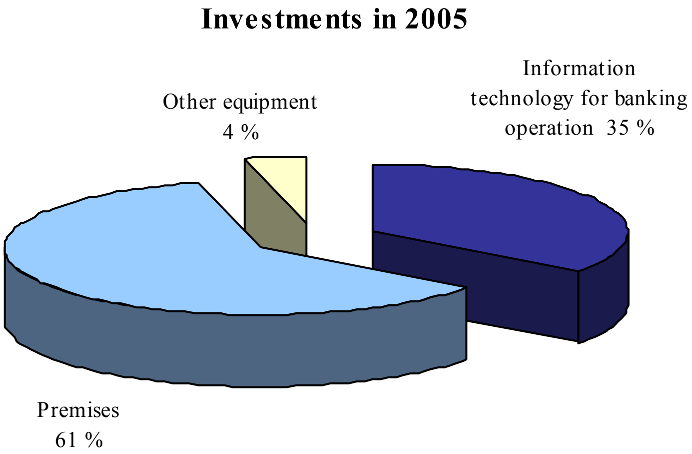
Investments and fixed assets

In 2005, the Bank invested 1,234 million tolars in business computerisation, business premises, and other equipment.

With 753 million tolars, computerisation of banking operations accounted for the biggest portion of investments – 61 per cent of all investments allocated by the Bank. The Bank invested more than half of the money in card operations, predominately to upgrade the POS and ATM network.

In 2005, the refurbishment of the Bank's premises started in 2003 was completed. For the expansion of the commercial network and the refurbishment the Bank allocated 432 million tolars, i.e. 35 per cent of all investments, most of which for the refurbishment of the Bank's head office at 14 Pristaniška Street in Koper.

49 million tolars were allocated to other equipment i.e. 4 per cent of all investments, the bulk of which refers to the procurement of new equipment for the Bank's vaults.



Information and technological development

In 2005, the activities carried out in the area of IT and technological development was channelled in:

Modernisation of information infrastructure, where the Bank embarked on the project for the consolidation of IT infrastructure mostly as a result of ensuring a higher level of reliability, i.e. accessibility of individual information solutions and due to a shortage of data and physical space;

Provision of security and reliability of operations, and namely by the Bank completing the project for the modernisation of the firewall that provides controlled and secure data transmission with the external environment as well as secure data transmission within the Bank. In addition, in the operating security area more activities on various technical platforms were carried out and in the area of the provision of back-up copies. The launching of the smart card and the generator of a unique password, a landmark step in the Internet banking security was made.

In addition, a number of IT projects in 2005 were oriented toward upgrading IT solutions already in place for the purpose of business rationalisation.

The launching of new products and services had equally significant impact on IT projects in 2005. The Bank developed a comprehensive solution for the support for the product foreign mutual funds (SPIMI), product Bankredit (replacing payments with cheques and standing orders), product of loans in foreign currency (tailored-made for individual customers). In addition, a technological solution for the support for forex cash management was also developed. As regards the Internet banking, the Bank developed the version of the I-net Banka in the English language for legal entities and individuals and, by doing so, the Bank expanded its offer also to non-residents.

In 2005, the Bank continued with the activities with the aim to put in place the data warehouse, which captures all data sources from individual information platforms in the Bank, and it developed the software application required for the transition to International Financial Reporting Standards (IFRS).

In 2006, the Bank will focus on the euro project started already in 2005, the development of the multimedia business unit Banka IN and further construction of the data warehouse for the needs of internal reporting and controlling.

Organic growth

Headcount and the educational structure of employees

At year-end, the Bank had 792 employees. The average age of its employees is 41.5 years. The aggregate years of service averaged 20.5 years, the number of years spent working for the Bank is 16.3.

Number of employees by educational level

Level of education	V or lower	VI	VII or higher	Total
Number of employees	489	101	202	792
Share	61.7	12.8	25.5	100.0

Education and training of employees

In 2005, the aggregate number of attendants of education/training in the Bank totalled 1,602. The Bank's employees spent in 2005 at seminars and on-the-job training 19,194 educational hours at 228 educational forms.

Indicators of processes and education - education and training of employees	Banka Koper d.d.
The number of employees	792
The annual number of employees included in education and training	1,602
The share of employees included in education and training (in %)	203.6
The annual number in education and training	19,194
The average number in education and training per employee	24.4

POSITIONING BUSINESS FOR GROWTH IN 2006

The main strategic orientation pursued by the Bank is to remain a universal bank. The Bank's commitment to growth and development will be realised through organic growth, viz.:
By intensifying commercial activities across the Bank's branch network,
By launching new products,
By exploiting better modern distribution channels,
By synergy with SPIMI,
By putting in place adequate technological support,
By on-going education and training of staff, and
By appropriate organisational adjustment.

The Bank's objectives in 2006

the strengthening of the market share: the Bank is committed to improving its market position and increasing its market share primarily by expanding and enlarging its business network. The Bank does most of its business in its domicile region where it has a majority share. The Bank's principal task will be to maintain its already acquired market share in the domicile region and at the same time to increase its market share in other Slovenian regions.

In 2006, the Bank is planning also to launch BankaIN – the first all-round multimedia business unit in Slovenia.

information support development: the Bank, that already in 2005 was preparing the groundwork for the changover to the euro, will intensify the preparations in 2006 in order to enable a smooth changeover. Further upgrade and redesign will be carried out to some IT applications in effort to raise quality and the Bank's responsiveness. In 2006, the Bank is planning to continue with the development of the data warehouse project.

divestiture: the activities aimed at the disposal of the remaining equity holdings acquired through debt-for-equity swaps will continue.

SHAREHOLDERS

As of 31 December 2005, the shareholder structure of Banka Koper d.d. was as follows:

Shareholders of Banka Koper

	% of capital
San Paolo IMI d.d.	63.92
Istrabenz d.d.	10.00
Luka Koper d.d.	10.00
Intereuropa d.d.	10.00
Minority shareholders	3.62
Banka Koper d.d.	2.45

STATEMENT OF MANAGEMENT' S RESPONSABILITIES

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

The management 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 financial statements for the year ended 31 December 2002. The management also confirms that applicable International Accounting Standards have been followed and that the financial statements have been prepared on the 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 KRAGELJ	Corrado CASALINO	Vojko ČOK
Member	Deputy President	President

16 June 2006

Consolidated income statement

(all amounts expressed in thousands of SIT)	Notes	Year ended 31 December	
		2005	2004
Interest and discount income	2	17,178,104	16,919,518
Interest expense	2	6,584,584	7,199,171
Net interest income		**10,593,520**	**9,720,347**
Fee and commission income	3	6,547,692	6,050,645
Fee and commission expense	3	987,049	840,334
Net fee and commission income		**5,560,643**	**5,210,311**
Dividend income	4	141,457	137,602
Net trading income	5	1,357,287	1,431,845
Gains less losses from investment securities	6	614,445	(240,771)
Other operating income	7	692,619	1,034,855
Operating income		**18,959,971**	**17,294,189**
Operating expenses	8	(11,029,623)	(10,282,694)
Impairment losses on loans and advances	10	(2,533,370)	135,443
Profit before tax		**5,396,978**	**7,146,938**
Income tax expense	11	(1,404,040)	(1,675,775)
Net profit for the period		**3,992,938**	**5,471,163**
Earnings per share (expressed in SIT per share)			
– basic and diluted	12	7,703	10,555

The following notes on pages 30 to 67 form an integral part of these consolidated financial statements.

Consolidated balance sheet

(all amounts expressed in thousands of SIT)	**Notes**	**As at 31 December**	
		2005	**2004**
ASSETS			
Cash and balances with central bank	13	8,418,712	3,313,577
Due from other banks	14	39,543,365	34,475,295
Trading securities	15	24,356,210	1,694,825
Derivative financial instruments	16	1,694,867	101,236
Loans and advances to customers	17	252,872,105	192,516,424
Investment securities	18	98,707,958	93,038,968
Pledged assets	33	1,000,000	500,000
Goodwill	19	217,020	217,020
Investment property	20	519,405	455,197
Intangible assets	21	590,735	459,669
Property and equipment	22	7,460,574	7,735,493
Deferred income tax assets	30	900,191	188,102
Other assets	23	2,198,824	2,101,974
Total assets		438,479,966	336,797,780
LIABILITIES			
Due to other banks	24	9,458,634	12,020,945
Borrowings from banks	28	126,964,342	42,714,020
Other deposits	25	1,584,836	1,455,190
Derivative financial instruments and other trading liabilities	16	93,346	997,788
Due to customers	26	244,793,821	230,149,294
Debt securities in issue	27	-	2,080,371
Other liabilities	29	8,840,674	5,528,383
Current income tax liabilities		780,197	72,342
Deferred tax liabilities	30	1,520,915	1,044,869
Retirement benefit obligations	31	895,718	504,697
Total liabilities		394,932,483	296,567,899
SHAREHOLDERS' EQUITY			
Share capital	34	5,064,890	5,064,890
Share premium	34	877,625	877,625
Less treasury shares	34	(158,124)	(158,148)
Reserves	35	33,487,552	28,609,626
Reserves for general banking risk		1,350,175	1,350,175
Retained earnings		2,925,365	4,485,713
Total shareholders' equity		43,547,483	40,229,881
Total equity and liabilities		438,479,966	336,797,780

These financial statements have been approved for issue by the Board of Directors on 16 June 2006 and signed on its behalf by:

Vojko Čok
President of the Management Board

Mariza Virágh
Chief Financial Officer

The following notes on pages 30 to 67 form an integral part of these consolidated financial statements.

Consolidated statement of changes in shareholders' equity

(all amounts expressed in thousands of SIT)	Notes	Share capital	Share premium	Treasury shares	Reserves for general banking risk	Reserves	Retained earnings	Total
Balance at 31 December 2003		**5,064,890**	**877,625**	**(158,148)**	**1,350,175**	**23,914,000**	**4,931,614**	**35,980,156**
Adoption of reviewed IFRS 39		-	-	-	-	1,542,555	(1,542,555)	-
Profit for the year		-	-	-	-	-	5,471,163	5,471,163
Dividend for 2003		-	-	-	-	-	(1,838,508)	(1,838,508)
Net fair value gains, net of tax on available-for-sale investments		-	-	-	-	617,070	-	617,070
Transfer to legal reserves		-	-	-	-	230,335	(230,335)	-
Transfer to statutory reserves		-	-	-	-	2,305,666	(2,305,666)	-
Balance at 31 December 2004		**5,064,890**	**877,625**	**(158,148)**	**1,350,175**	**28,609,626**	**4,485,713**	**40,229,881**
Current profit		-	-	-	-	-	3,992,938	3,992,938
Dividend and remuneration for 2004	36	-	-	-	-	-	(2,359,940)	(2,359,940)
Net fair value gains, net of tax on available-for-sale investments		-	-	-	-	1,591,389	-	1,591,389
Transfer to legal reserves	35	-	-	-	-	278,809	(278,809)	-
Transfer to statutory reserves	35	-	-	-	-	2,914,561	(2,914,561)	-
Intangible assets revaluation		-	-	-	-	93,191	-	93,191
Decrease of treasury shares fund		-	-	24	-	(24)	24	24
Balance at 31 December 2005		**5,064,890**	**877,625**	**(158,124)**	**1,350,175**	**33,487,552**	**2,925,365**	**43,547,483**

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

The following notes on pages 30 to 67 form an integral part of these consolidated financial statements.

Consolidated Cash flow statement

(all amounts expressed in thousands of SIT)	Note	Year ended 31 December	
		2005	2004
Cash flows from operating activities			
Interest receipts		15,711,733	15,932,555
Interest payments		(5,244,716)	(6,335,593)
Dividend receipts		141,458	137,601
Fee and commission receipts		6,240,899	5,899,798
Other income received		(71,787)	2,883,835
Recoveries on loans previously written off		65,473	113,608
Cash payments to employees and suppliers		(9,183,189)	(8,707,499)
Income taxes paid		(1,699,428)	(1,456,837)
Cash flows from operating activities before changes in operating assets and liabilities		5,960,443	8,467,468
Changes in operating assets and liabilities:			
Net increase in trading securities		(41,449,357)	(3,162,405)
Net decrease in loans and advances to banks		(2,397,000)	(5,115,856)
Net increase in loans and advances to customers		(60,698,978)	(28,800,777)
Net decrease in other assets		(252,579)	4,114,451
Net decrease/increase in deposits from other banks		(2,562,311)	(8,445,994)
Net decrease/ increase in other deposits		129,646	(450,000)
Net increase in amounts due to customers		14,806,040	18,123,214
Net decrease/ increase in other liabilities		2,045,507	(198,143)
Net cash from operating activities		(84,418,589)	(15,468,042)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash disposed		-	(542,329)
Disposal of subsidiaries, net cash disposed		2,107,003	-
Purchase of property, equipment and intangibles		(1,296,665)	(2,777,817)
Proceeds from sale of property, equipment and intangibles		290,186	413,376
Purchases of investment securities		(64,691,355)	(58,622,643)
Proceeds from sales of investment securities		77,168,351	62,745,758
Net cash used in investing activities		13,577,520	1,216,345
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		289,107,387	110,373,264
Repayments of borrowed funds and debt securities		(208,199,582)	(95,200,363)
Dividends paid		(2,359,941)	(1,848,457)
Net cash from financing activities		78,547,864	13,324,444
Effect of exchange rate changes on cash and cash equivalents		772,056	(508,625)
Net increase in cash and cash equivalents		**8,478,851**	**(1,435,878)**
Cash and cash equivalents at beginning of year	37	33,319,259	34,755,137
Cash and cash equivalents at end of year	37	**41,798,110**	**33,319,259**

The following notes on pages 30 to 67 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 as adopted by EU and under the historical cost convention as modified by the revaluation of certain assets.

The preparation of financial statements in conformity with IFRS as adopted by EU 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 as adopted by EU.

B Adoption of new and revised International Financial Reporting Standard

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial reporting Interpretations Committee (IFRIC) of the IASB that are effective for accounting periods beginning on 1 January 2005. The adoption of new and revised Standards and Interpretations has affected mostly the Bank's accounting policies regarding IAS 39 Financial Instruments: recognition and measurement.

Implementation of revised IAS 39 resulted in following changes:
- the Group changed accounting policy regarding the presentation of effects of changes in fair value of available for sale securities from income statement to equity,
- the Group reclassified securities, acquired at original issuance, which are quoted in the market from loans to available for sale group,
- the Group reclassified certain securities from trading to available for sale in accordance with transitional provisions (39.105) of revised standard.

Implementation of revised IAS 39 doesn't increase equity. Financial statements for the year 2004 have been restated in order to reflect changes of new IAS 39. Consequently SIT 1,191,301 thousands tolars were transferred from retained earnings to revaluation reserve.

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

- IAS 8, 10, 16, 17, 27, 28, 32 and 33 had no material affect on the Group's policies
- IAS 21 had no material effect on the Group's policy. All the Group entities have the same functional currency as their presentation currency
- IAS 24 has effected some new related party disclosures
- IAS 38 – the Group reassesses the useful lives of intangible assets. No adjustment resulted from this reassessment

C 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 effective 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.

The Bank has only one subsidiary – the leasing company Finor Leasing, aquried in 2004.

D 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.

E 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.

F Interest and discount income 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.

G Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be 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 arrangement of 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.

H Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to- maturity investments; and available-for- sale financial assets. Management determines the classification of its investments at initial recognition.

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

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

c) Held to maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Group's management has the positive intention and ability to hold to maturity. Were the group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

d) Available for sale
Available-for-sale investments are those intended to be held for an indefinite period of tine, which may be sold in response to needs for liquidity or charges in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit and loss, held to maturity and available for sale are recognised on trade-date - the data on which the group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

H Financial assets (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial assets is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair value of quoted investments in active markets is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transaction, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

I Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

J Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor
b) a breach of contract, such as a default or delinquency in interest or principal payments
c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation
e) the disappearance of an active market for that financial asset because of financial difficulties or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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

J Impairment of financial assets (continued)

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Assets carried at fair value

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

K 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.

L 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.

M Investment property

Investment property comprises freehold land and buildings that are not occupied substantially for use by, or in the operations of the Group. 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.

N Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line methods to allocate their cost to their residual values 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

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

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circum stances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains less losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

O Intangible assets

Intangible assets are recorded at cost. Amortisation 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 Leases

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Q 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, amounts due from other banks and dealing securities readily convertible to a known amount of cash.

R 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 or other member of the consolidated Group 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.

S 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.

T 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.

U Employee benefits

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long-services benefits. Valuations of these obligations are carried out by independent qualified actuaries. The main actuarial assumptions included in the calculation of the obligation for other long-term employee benefits are: discount rate of 2.75% and future salary increases using general inflation index, promotions, fluctuation diversificated by age, minimum retirement conditions and increases in salaries according to past years of services.

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.

V Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year (see Note 15, 16, 17, 18, 29, 35, 37, 41). Due to adoption of revised IFRS 39 on 1 January 2005 the Bank reclassified its securities portfolio also for comparative year.

W 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.

X 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.

Y 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.

Z 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.

Aa 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 minus positive 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**	
	2005	**2004**	**2005**	**2004**
Balance sheet assets (net of provisions)				
Due from other banks	39,543,365	34,475,295	6,568,129	5,869,059
Loans and advances to customers	252,872,105	192,516,424	214,131,143	166,269,703
Trading and investment securities	123,064,168	95,233,793	5,476,045	2,381,982
Derivative financial instruments	1,694,867	101,236	-	101,236
Property investment	519,405	455,197	519,405	455,197
Intangible fixed assets	590,735	459,669	590,735	459,669
Property and equipment	7,460,574	7,735,493	7,460,574	7,735,493
Other assets	4,316,035	2,507,096	1,264,634	2,318,994
Unassigned market-risk components	-	-	77,467,545	46,229,676
Off balance sheet positions				
Credit related commitments	90,710,042	65,738,710	17,134,394	14,144,872
Forwards-based derivative instruments	4,109,087	9,496,543	1,366,593	241,775
Total risk- weighted assets			**331,979,197**	**246,207,656**

BIS Capital Ratios

	Capital		**BIS%**	
	2005	**2004**	**2005**	**2004**
Tier 1 capital	36,240,057	33,375,283	10.92	13.56
Tier 1 + Tier 2 capital	43,330,463	40,012,861	13.05	16.25

C Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group 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 Group operates principally in its home country of Slovenia. Transactions with entities in other countries are in the form of interbank relations relating mostly to deposits and borrowed funds, only a small part of customers lending (SIT 8,098,975 thousand) relates to the other countries of former Yugoslavia (in 2004: SIT 4,938,820 thousand).

In total, net credit risk exposure to foreign banks and other financial institutions amounted to SIT 32,084,932 thousand as at 31 December 2005 (SIT 29,952,702 thousand as at 31 December 2004).

C Credit risk (continued)

Derivatives

The Group 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 Group (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 Group 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 Group'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 Group 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 Group 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 Group's exposure to foreign currency exchange rate risk at 31 December 2005. Included in the table are the Group'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 2005	EUR	USD	SIT	Other	Total
Assets					
Cash and balances with central bank	1,094,311	103,076	7,064,334	156,991	8,418,712
Due from other banks	25,795,375	4,084,708	8,550,654	1,112,628	39,543,365
Trading securities	-	-	24,284,438	71,772	24,356,210
Derivative financial instruments	-	-	1,694,867	-	1,694,867
Loans and advances to customers	120,671,808	506,671	130,291,093	1,402,533	252,872,105
Investment securities	30,900,184	12,618,433	55,189,341	-	98,707,958
- held to maturity	26,463,874	12,608,362	7,929,409	-	47,001,645
- available for sale	4,436,310	10,071	47,259,932	-	51,706,313
Pledged assets	-	-	1,000,000	-	1,000,000
Goodwill	-	-	217,020	-	217,020
Investment property	-	-	519,405	-	519,405
Intangible fixed assets	-	-	590,735	-	590,735
Property and equipment	-	-	7,460,574	-	7,460,574
Deferred income tax assets	-	-	900,191	-	900,191
Other assets	95,859	4,443	2,091,543	6,979	2,198,824
Total assets	**178,557,537**	**17,317,331**	**239,854,195**	**2,750,903**	**438,479,966**
Liabilities					
Due to other banks	9,385,110	30,938	33,872	8,714	9,458,634
Borrowings from banks	126,136,974	30,979	796,389	-	126,964,342
Other deposits	-	-	1,584,836	-	1,584,836
Derivative financial instruments and other trading liabilities	-	-	93,346	-	93,346
Due to customers	77,279,105	17,220,147	147,698,978	2,595,591	244,793,821
Other liabilities	690,684	42,776	8,053,412	53,802	8,840,674
Current income tax	-	-	780,197	-	780,197
Deferred tax liabilities	194,161	543	1,324,770	1,441	1,520,915
Retirement benefit obligation	-	-	895,718	-	895,718
Total liabilities	**213,686,034**	**17,325,383**	**161,261,518**	**2,659,548**	**394,932,483**
Net balance sheet position	**(35,128,497)**	**(8,052)**	**78,592,677**	**91,355**	**43,547,483**
Credit commitments	**16,977,881**	**719,756**	**76,520,662**	**600,830**	**94,819,129**

As at 31 December 2004	EUR	USD	SIT	Other	Total
Total assets	**113,751,315**	**16,413,384**	**203,646,973**	**2,986,108**	**336,797,780**
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**

(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 Group 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 2005 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 Group's exposure to interest rate risks. Included in the table are the Group'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 187,006,477 thousand (2004: SIT 168,348,159 thousand) of Due to customers up to 1 month, of which 60% (2004: 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 2005	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	6,491,537	-	-	-	-	1,927,175	8,418,712
Due from other banks	32,657,637	-	-	6,527,000	-	358,728	39,543,365
Trading securities	-	-	-	-	-	24,356,210	24,356,210
Derivative financial instruments	-	-	-	-	-	1,694,867	1,694,867
Loans and advances to customers	180,762,510	10,668,230	30,382,553	17,778,328	10,899,272	2,381,212	252,872,105
Investment securities:	11,082,852	32,577,090	11,412,609	20,841,594	12,574,140	10,219,673	98,707,958
- available-for-sale	4,916,944	2,540,633	781,031	20,841,594	12,574,140	10,051,971	51,706,313
- held-to-maturity	6,165,908	30,036,457	10,631,578	-	-	167,702	47,001,645
Pledged assets	-	-	-	1,000,000	-	-	1,000,000
Deffered income tax assets	-	-	-	-	-	900,191	900,191
Other assets	-	-	-	-	-	10,986,558	10,986,558
Total assets	**230,994,536**	**43,245,320**	**41,795,162**	**46,146,922**	**23,473,412**	**52,824,614**	**438,479,966**
Liabilities							
Due to other banks	8,152,017	1,197,878	-	-	-	108,739	9,458,634
Borrowings from banks	126,538,673	-	-	-	-	425,669	126,964,342
Other deposits	950,000	-	-	-	-	634,836	1,584,836
Derivative financial instruments and other trading liabilities	-	-	-	-	-	93,346	93,346
Due to customers	187,006,477	34,641,606	21,321,979	35,306	11,072	1,777,381	244,793,821
Other liabilities	-	-	-	-	-	8,840,674	8,840,674
Current income tax liabilities	-	-	-	-	-	780,197	780,197
Deferred tax liabilities	-	-	-	-	-	1,520,915	1,520,915
Retirement benefit obligation	-	-	-	-	-	895,718	895,718
Total liabilities	**322,647,167**	**35,839,484**	**21,321,979**	**35,306**	**11,072**	**15,077,475**	**394,932,483**
On-balance sheet Interest sensitivity gap	**(91,652,631)**	**7,405,836**	**20,473,183**	**46,111,616**	**23,462,340**		

(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 2005	**EUR**	**USD**	**SIT**
Assets			
Cash and balances with central bank	-	-	1.00
Due from other banks	2.32	4.25	4.09
Loans and advances to customers	3.30	5.44	6.13
Investment securities	2.45	4.27	3.86
Liabilities			
Due to other banks	2.53	-	6.54
Other deposits	-	-	11.65
Due to customers	1.05	1.25	2.24
Borrowings from banks	2.55	-	3.55

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
Due from other banks	29,345,295	-	-	5,130,000	-	-	34,475,295
Trading securities	-	-	-	-	-	1,694,825	1,694,825
Derivative financial instruments	-	-	-	-	-	101,236	101,236
Loans and advances 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:	29,571,991	23,645,066	19,519,503	5,962,411	6,389,484	7,950,513	93,038,968
- available-for-sale	9,973,789	2,598,287	2,910,318	5,962,411	6,389,484	7,626,390	35,460,679
- originated securities	13,064,609	-	-	-	-	153,890	13,218,499
- held-to-maturity	6,533,593	21,046,779	16,609,185	-	-	170,233	44,359,790
Pledged assets	500,000	-	-	-	-	-	500,000
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
Borrowings from banks	39,623,496	51,613	51,614	1,318,275	1,483,705	185,317	42,714,020
Other deposits	950,000	-	-	-	-	505,190	1,455,190
Derivative financial instruments and other trading liabilities	-	-	-	-	-	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 liabilities	-	-	-	-	-	5,528,383	5,528,383
Current income tax liabilities	-	-	-	-	-	72,342	72,342
Deferred tax liabilities	-	-	-	-	-	1,044,869	1,044,869
Retirement benefit obligation	-	-	-	-	-	504,697	504,697
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
Due from other banks	2.14	2.40	4.20
Loans and advances to customers	3.00	2.84	7.23
Investment securities- debt securities	2.28	2.14	6.07
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
Borrowings from banks	2.42	-	3.30

G Liquidity risk

The Group 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 Group's capacity to meet its current obligations on 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 Group 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 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and central banks balances	8,418,712	-	-	-	-	8,418,712
Due from other banks	32,627,541	388,824	-	6,527,000	-	39,543,365
Trading securities	24,356,210	-	-	-	-	24,356,210
Derivative financial instruments	22,488	-	501,516	1,170,863	-	1,694,867
Loans to customers	18,751,325	25,527,794	80,222,813	88,285,578	40,084,595	252,872,105
Investment securities:	10,100,937	33,384,548	13,778,990	22,832,391	18,611,092	98,707,958
- available-for-sale	4,558,025	3,266,412	3,129,450	22,832,391	17,920,035	51,706,313
- held-to-maturity	5,542,912	30,118,136	10,649,540	-	691,057	47,001,645
Pledged assets	-	-	-	1,000,000	-	1,000,000
Other assets	1,973,150	110,772	114,902	900,191	8,787,734	11,886,749
Total assets	**96,250,363**	**59,411,938**	**94,618,221**	**120,716,023**	**67,483,421**	**438,479,966**
Liabilities						
Due to other banks	92,734	1,250,728	-	120,000	7,995,172	9,458,634
Borrowings from banks	1,212,994	190,177	105,428,218	17,956,960	2,175,993	126,964,342
Other deposits	-	1,584,836	-	-	-	1,584,836
Derivative financial instruments and other trading liabilities	44,901	-	33,430	15,015	-	93,346
Due to customers	163,639,315	41,844,278	32,857,895	6,014,898	437,435	244,793,821
Other liabilities	4,440,357	114,434	110,610	139,279	4,035,994	8,840,674
Current income tax liabilities	-	780,197	-	-	-	780,197
Deffered tax liabilities	-	-	-	-	1,520,915	1,520,915
Retirement benefit obligation	-	-	102,202	-	793,516	895,718
Total liabilities	**169,430,301**	**45,764,650**	**138,532,355**	**24,246,152**	**16,959,025**	**394,932,483**
Net liquidity gap	**(73,179,938)**	**13,647,288**	**(43,914,134)**	**96,469,871**	**50,524,396**	**43,547,483**

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	59,068,227	47,975,475	87,932,177	84,168,965	57,652,936	336,797,780
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**

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.

a) 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.

b) 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.

c) 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.

d) 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.

I Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash lows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Fair value of derivatives

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

c) Impairment of available-for-sale equity investments

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

d) Held- to-maturity investments

The Group follows the guidance of IAS 39on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investment to maturity. If the Group fails to keep these investment to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class a s available-for-sale. The investments would therefore be measured at fair value not amortised cost.

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 2005	Retail banking	Corporate banking	Investment banking	Other	Eliminations	Total
External revenues	10,208,318	6,909,885	6,306,410	3,106,993	-	26,531,606
Revenues from other segments	2,494,669	-	-	2,868,957	(5,363,626)	-
Total revenues	**12,702,987**	**6,909,885**	**6,306,410**	**5,975,950**	**(5,363,626)**	**26,531,606**
Segment result	4,069,963	814,254	1,454,979	(942,218)	-	5,396,978
Profit before tax						5,396,978
Income tax expense						(1,404,040)
Net profit for the period						**3,992,938**
Segment assets	83,962,326	167,209,754	172,302,214	14,788,652	-	438,262,946
Unallocated assets (goodwill)						217,020
Total assets						**438,479,966**
Segment liabilities	214,912,020	22,638,321	151,162,037	6,220,105	-	394,932,483
Total liabilities						**394,932,483**
Capital expenditure	419,628	419,628	61,436	1,402,936	-	2,303,628
Depreciation	278,590	278,590	40,787	787,327	-	1,385,294
Amortisation						-

(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 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	(327,163)	206,052	-	7,055,501
Unallocated income (from negative goodwill)	-	-	-	-	-	91,437
Profit before tax	-	-	-	-	-	7,146,938
Income tax expense	-	-	-	-	-	(1,675,775)
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**5,471,163**
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	-	91,437

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

2 Net interest income

	2005	2004
Interest and discount income		
Central bank deposits	67,328	66,348
Treasury bills and marketable securities	695,175	966,180
Bank deposits and loans	1,170,512	846,927
Loans and advances to other customers	12,459,619	11,910,278
Investment securities	2,644,498	3,060,805
Other	140,972	68,980
	17,178,104	16,919,518
Interest expense		
Bank deposits and loans	1,896,904	1,096,298
Other customers	4,340,085	5,740,309
Debt securities in issue	233,850	335,135
Other	113,745	27,429
	6,584,584	7,199,171

3 Net fee and commission income

	2005	2004
Fee and commission income		
Guarantees	172,625	197,392
Payment transactions	1,601,969	1,516,274
Debit/credit card money transactions	3,892,565	3,449,983
Other	880,533	886,996
	6,547,692	6,050,645
Fee and commission expense		
Bank services	766,005	627,458
Money transfer	189,936	189,451
Other	31,108	23,425
	987,049	840,334

4 Dividend income

	2005	2004
Trading securities	75,559	108,141
Investment securities	65,898	29,461
	141,457	137,602

5 Net trading income

	2005	2004
Foreign exchange transaction losses less gains	24,862	94,390
Currency trading	351,989	384,087
Securities trading		
- equities	(1,426,516)	1,195,541
- debt securities	862,125	30,106
- derivatives	1,544,827	(272,279)
	1,357,287	1,431,845

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

6	**Gains less losses from investment securities**	**2005**	**2004**
	Loss / income due to sale of investment securities	614,445	(240,771)
		614,445	(240,771)

7	**Other operating income**	**2005**	**2004**
	Rent	263,127	375,305
	Amortisation of negative goodwill	-	91,437
	Other	429,492	568,113
		692,619	1,034,855

8	**Operating expenses**	**2005**	**2004**
	Staff costs (Note 9)	6,207,584	5,572,926
	Material costs	423,383	357,190
	Maintenance costs	441,548	450,791
	Rent	212,520	262,819
	Professional services	1,435,134	1,178,236
	Advertising and marketing	385,977	324,367
	Depreciation (Note 21, 22)	1,385,294	1,558,193
	Other	538,183	578,172
		11,029,623	10,282,694

9	**Staff costs**	**2005**	**2004**
	Salaries	3,946,057	3,719,086
	Social security costs	644,158	615,521
	Pension costs	349,764	332,036
	Retirement and long service bonus	282,571	26,122
	Other	985,034	880,161
		6,207,584	5,572,926

10	**Impairment losses on loans and advances**	**2005**	**2004**
	Amounts due from other banks (Note 14)	(297,354)	76,434
	Loans and advances to customers (Note 17)	2,380,882	(221,793)
	Provisions for off-balance sheet exposures (Note 32)	346,113	783,391
	Provision for National Saving Housing Scheme	55,000	-
	Other assets (Note 23)	(10,145)	(714,262)
	Bad debts written off directly	107,578	54,395
	Recoveries on loans previously written off	(48,704)	(113,608)
		2,533,370	(135,443)

11	**Income tax expense**	**2005**	**2004**
	Tax on profit	2,219,641	1,454,719
	Deferred tax (Note 30)	(815,601)	221,054
	Income tax expense	1,404,040	1,675,775

(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 30. 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	5,396,978	7,146,938
Differences from IFRS to statutory reporting	1,713,169	(1,020,098)
Profit before tax	7,110,147	6,126,840
Prima facie tax calculated at a tax rate of 25% [2004: 25%]	1,777,537	1,531,710
Income not assessable for tax	(330,741)	(4,550)
Income assessable for tax (not recognised in income statement)	29,044	8,790
Expenses not deductible for tax purposes		
– Negative valuation of securities and derivatives HFT	448,311	-
– Non-allowable provisions	101,250	31,250
– Expenses related to employees benefits	16,782	-
– Staff costs not assessable for tax	46,084	-
– Other non deductible expenses	152,378	142,455
Tax relief	(21,004)	(254,936)
Tax on profit	2,219,641	1,454,719

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 of 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 potential ordinary shares. There are no share options schemes.

	2005	2004
Net profit attributable to shareholders	3,992,938	5,471,165
Weighted average number of ordinary shares in issue	518,357	518,356
Basic earnings per share (expressed in SIT per share)	7,703	10,555

13 Cash and balances with central bank

	2005	2004
Cash in hand included in cash and cash equivalents (Note 38)	8,418,712	3,313,577
	8,418,712	3,313,577

Balances with central bank include mandatory reserve deposits of SIT 7,077,746 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 2% of time deposits up to two years.

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	**Due from other banks**	**2005**	**2004**
	Items in course of collection from other banks	2.465.009	2,407,909
	Placements with other banks	30,914,389	27,597,773
	Included in cash and cash equivalents (Note 38)	33,379,398	30,005,682
	Placements with other banks	6,527,000	5,130,000
	Not included in cash equivalents	6,527,000	5,130,000
	Less specific provisions for impairment	(363,033)	(660,387)
		39,543,365	34,475,295

In 2005 SIT 1,000,000 thousand of placements with other banks are shown under Pledeged assets.

15	**Trading securities**	**2005**	**2004**
	Equity securities		
	– Listed	23,191,356	74,201
	– Unlisted	1,164,854	1,620,624
		24,356,210	1,694,825

At 31 December 2005 there are no securities pledged (2004:nil).

16 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 three years. 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)

16 Derivative financial instruments and trading liabilities (continued)

Year ended 31 December 2005	Contract/notional amount	Fair values Assets	Fair values Liabilities
Interest rate derivatives			
Interest rate swaps	1,609,674	15,523	-
Cross-currency interest rate swaps	1,609,674	-	15,523
Other derivatives			
Forward agreement on sale of marketable shares	25,337,504	1,651,899	-
Forward agreement on sale non marketable shares	1,120,900	-	32,923
Currency swaps with central bank	92,578,157	-	18,483
Currency forward	5,859,009	27,445	26,417
Total derivative assets/(liabilities) held for trading		1,694,867	93,346

Year ended 31 December 2004	Contract/notional amount	Fair values Assets	Fair values 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 and interest swaps with central bank	40,585,063	-	7,351
Currency forward	3,711,251	29,066	351,330
Total derivative assets/(liabilities) held for trading		101,236	997,788

17 Loans and advances to customers

	2005	2004
Loans to individuals:		
Overdrafts	8,618,497	7,597,781
Credit cards	1,979,800	2,450,937
Term loans	32,453,793	27,809,266
Mortgages	19,200,788	15,554,628
Other	68,001	68,001
Loans to corporate entities:		
Overdrafts	701,601	596,597
Credit cards	72,214	135,461
Commercial loans	202,404,987	148,604,730
Other	84,729	65,671
Gross loans and advances	265,584,410	202,883,072
Less provision for impairment	(12,712,305)	(10,366,648)
	252,872,105	192,516,424

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

17 Loans and advances to customers (continued)

Movement in provisions for impairment are as follows:

Balance at 31 December 2003	10,549,339
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	10,366,648
Additional provision for loan impairment	2,380,882
Bad debts written off (charged against specific provisions)	(35,225)
Balance at 31 December 2005	12,712,305

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

	2005	2005%	2004	2004 %
Government bodies	16,346,064	6	3,344,249	2
Trade	35,873,283	14	27,218,320	13
Services	86,613,160	33	61,507,629	30
Construction	4,653,732	2	6,432,688	3
Manufacturing	50,937,127	19	43,680,247	22
Agriculture	1,918,633	1	1,972,237	1
Private individuals	61,733,206	23	52,833,001	26
Other	7,509,205	3	5,894,701	3
Gross loans and advances	265,584,410	100	202,883,072	100
Less provision for impairment	(12,712,305)		(10,366,648)	
Net loans and advances	252,872,105		192,516,424	

Slovenian customers and customers from other European countries accounted for 97% and 3% 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:

	2005	2004
Gross investment in finance leases:		
Not later than 1 year	55,006	-
Later than 1 year and not later than 5 years	1,725,308	1,200,905
Later than 5 years	2,999,993	2,143,558
	4,780,307	3,344,463
Unearned future finance income on finance leases	(897,298)	(606,206)
Net investment in finance leases	3,883,009	2,738,257
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	46,033	-
Later than 1 year and not later than 5 years	1,402,281	983,308
Later than 5 years	2,434,695	1,754,949
	3,883,009	2,738,257

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 38.

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

18 Investment securities	**2005**	**2004**
Securities available- for- sale		
Debt securities		
– Listed	41,478,417	28,748,052
– Unlisted	1,303,515	-
Equity Securities		
– Listed	3,014,782	2,630,649
– Unlisted	5,909,599	4,081,978
Total securities available-for-sale	51,706,313	35,460,679
Loans and recivebles		
– Unlisted	-	13,218,499
Total originated lons	-	13,218,499
Securities held to maturity		
Debt securities		
– Listed	711,231	816,909
– Unlisted	46,290,414	43,542,881
Total securities held to maturity	47,001,645	44,359,790
Total investment securities	98,707,958	93,038,968

Loans and recivebles 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. In 2005 the State redeemed before maturity the unlisted bond classified as originated loans.

In 2004 SIT 500,000 thousands of bond RS06 is shown under Pledged assets.

The unlisted debt securities held-to-maturity relate to treasury bills issued by Bank of Slovenia whith maturity date within one year.

The unlisted equity securities relate mostly to debt to equity swaps performed in the nineties. Considering 21% share in equity in Splošna plovba it has to be treated as investment in associates but regarding the capital structure of Splošna plovba (79% owned by Government), Banka Koper has no influence on bussines performance.

Unlisted Equity Securities	**2005**	**2004**
Cimos International	2,708,295	2,708,295
Pivka perutninarstvo d.d. Neverke	-	290,000
Splošna plovba Portorož	2,500,000	86,916
Lama Dekani	483,187	370,000
Other	218,117	626,767
	5,909,599	4,081,978

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

18 Investment securities (continued)

The movement in investment securities may be summarised as follows:

	2005 Available for sale	Originated loans	Held to maturity	2004 Total
At beginning of the year	35,460,679	13,218,499	44,359,790	76,302,825
Addoption of reviewed IAS 39	-	-	-	12,673,959
Additions	56,465,721	-	169,368,408	140,983,215
Exchange differences on monetary assets	37,360	-	1,332,329	(236,714)
Interests accrued on monetary assets	1,127,593	-	167,702	587,823
Disposals/Redemption	(44,251,035)	(13,218,499)	(168,226,584)	(137,730,529)
Gains from changes in fair value	2,865,995	-	-	458,389
At end of year	51,706,313	-	47,001,645	93,038,968

19 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.

	2005	2004
Opening net book amount	217,020	(91,437)
Amortisation charge	-	91,437
Goodwill due to acquisition	-	217,020
Closing net book amount	217,020	217,020
Cost - negative goodwill	-	(1,782,259)
Accumulated amortisation - negative goodwill	-	1,782,259
Cost - positive goodwill	217,020	217,020
Net book amount	217,020	217,020

20 Investment property

	2005	2004
At beginning of year	455,197	653,915
Transfer to fixed assets	-	(12,236)
Depreciation	(50,164)	(53,496)
Disposals	(26,215)	(173,786)
Additions	140,587	40,800
At end of year	519,405	455,197

The item other operating income from property investments carries rents in the amount of SIT 61,122 thousand (2004: SIT 16,368 thousand). There are no maintenance costs incurred under property investments (2004: nil). The bank has not obtained a valuation by independent professionally qualified valuer. At the end of 2005 fair value deffer from carrying value by SIT 528,106 thousand.

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

21 Intangible assets

At 31 December 2004	
Cost	2,148,195
Accumulated amortisation	(1,688,526)
Net book amount	459,669
Opening net book amount	459,669
Additions	450,671
Disposals	(203,359)
Amortisation charge	(116,246)
Closing net book amount	590,735
At 31 December 2005	
Cost	2,395,507
Accumulated amortisation	(1,804,772)
Net book amount	590,735

22 Property and equipment

	Land and buildings	**Hardware equipment**	**Other equipment**	**Total**
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
Year ended December 2004				
Opening net book amount	6,101,507	334,014	1,299,972	7,735,493
Additions	302,151	496,469	486,724	1,285,344
Disposals	-	-	(288,985)	(288,985)
Depreciation charge	(446,720)	(403,288)	(419,040)	(1,269,048)
Valuation	-	-	(2,230)	(2,230)
Closing net book amount	5,956,938	427,195	1,076,441	7,460,574
At 31 December 2005				
Cost	9,313,150	2,830,751	4,215,074	16,358,975
Accumulated depreciation	(3,356,212)	(2,403,556)	(3,138,633)	(8,898,401)
Net book amount	5,956,938	427,195	1,076,441	7,460,574

In 2005 the Bank obtained a valuation of land and buildings by an independent professionally qualified valuer. The fair value of land and building is higher than carrying amount by SIT 902,518 thousand.

23 Other assets

	2005	**2004**
Commission receivables	69,884	60,863
Accrued expenses	152,536	101,069
Advances	30,234	53,237
Transition accounts receivables	2,492	6,935
Cheques	27,125	19,939
Claims to citizens	1,311,759	1,275,723
Other	627,404	616,963
Less provision for impairment	(22,610)	(32,755)
	2,198,824	2,101,974

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

24 Due to other banks

	2005	2004
Items in the course of collection from other banks	74,930	195,344
Deposits from other bank	9,383,704	11,825,601
	9,458,634	12,020,945

25 Other deposits

	2005	2004
Certificates of deposit		
- long-term	1,584,836	1,455,190
	1,584,836	1,455,190

26 Due to customers

	2005	2004
Corporate customers		
– current/settlement accounts	17,973,991	16,259,394
– term deposits	26,344,257	31,624,665
Government bodies		
– current/settlement accounts	125	26,397
– term deposits	12,628,491	8,401,816
Private individuals		
– current/settlement accounts	86,173,580	80,427,235
– term deposits	101,673,377	93,409,787
	244,793,821	230,149,294

Included above were deposits of SIT 1,419,240 thousand (2004: SIT 3,758,529 thousand) held as collateral for irrevocable commitments under import letters of credit and against loans due to the Bank.

27 Debt securities in issue

	Average interest rate %	2005	2004
SIT medium term bonds due 2005	TOM + 6	-	2,080,371
		-	2,080,371

28 Borrowings from banks

	2005		2004	
	Short-term	Long-term	Short-term	Long-term
Loans from banks				
- In local currency	1,000,197	-	501,238	-
- In foreign currency	80,675,815	45,288,330	12,002,051	30,210,731
	81,676,012	45,288,330	12,503,289	30,210,731
	126,964,342		42,714,020	

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

29 Other liabilities

	2005	2004
Accrued interest	2,869	4,161
Amount waiting transfer to deposits accounts	1,636,552	1,415,458
Deferred income	180,242	187,866
Provisions for off balance sheet exposure (Note 31, Note 32)	3,515,508	3,169,395
Provisions for National Saving Housing Sheem	652,000	-
Creditors	295,298	172,347
Salaries	432,604	376,183
Liabilities for unpaid dividend	32,530	32,112
Liabilities due to repurchase agreements on securities	1,819,761	-
Other	273,310	170,861
	8,840,674	5,528,383

30 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% (2004: 25%).

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

	2005	2004
At beginning of the year	856,767	1,177,573
Income statement charge	(815,601)	221,054
Investment securities (fair value remeasurement)	579,558	(541,860)
At end of year	620,724	856,767

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

Deferred income tax liabilities	**2005**	**2004**
Provision for loan losses	323,429	426,941
Available-for-sale securities	1,197,486	617,928
	1,520,915	1,044,869

Deferred income tax assets	**2005**	**2004**
Provision for losses on off - balance sheet liabilities	49,918	68,050
Retirement and other employee benefits	219,118	120,052
Negative valuation of securities	448,311	-
Provisions for National Saving Housing Sheem	163,000	-
Deferred income	19,844	-
	900,191	188,102

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

	2005	**2004**
Retirement and long service bonus	99,066	(4,171)
Provisions for loan losses	103,513	303,719
Provision for losses on off - balance sheet liabilities	(18,133)	(78,492)
Valuation of trading securities	448,311	(117,085)
Provisions for National Saving Housing Sheem	163,000	-
Deferred income (interests and commissions)	19,844	-
	815,601	103,971

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

31 Retirement benefit obligations (Note 32)

	2005	2004
Rretirement severance pay	704,287	388,268
Long service bonus	89,229	28,337
Holiday not used	102,202	88,092
	895,718	504,697

32 Provisions for liabilities and charges

	Provisions for off-balance sheet exposures (Note 33)	Provisions for retirement and long service bonus
At 31 December 2004	3,169,395	504,697
Additional provisions	346,113	289,150
Charged to income statement (Note 10)	346,113	289,150
Additional provisions	-	113,690
Utilized provision	-	(11,819)
At 31 December 2005	3,515,508	895,718

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 1,170 thousand.

33 Contingent liabilities and commitments

Legal proceedings. As at 31 December 2005 there were no significant legal proceedings outstanding against the Bank.

Capital commitments. At 31 December 2005 the Bank had no capital commitments (2004: 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.

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

33 Contingent liabilities and commitments (continued)

	2005	2004
Guarantees and standby letters of credit	20,948,470	15,521,176
Documentary and commercial letters of credit	1,778,341	2,642,486
Commitments to extend derivative contracts	4,109,087	241,775
Commitments to extend credit:		
– Original term to maturity of one year or less	58,081,449	40,588,773
– Original term to maturity of more than one year	9,901,782	6,986,275
	94,819,129	**65,980,485**
Provisions for off-balance sheet exposures	(3,515,508)	(3,169,395)
	91,303,621	**62,811,090**

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 cover it by long-term deposit to the Bank of Slovenia. In 2005 this facility was not used.

	Asset		Related liability	
	2005	2004	2005	2004
Placements with central banks	1,000,000	-	-	-
Investment securities (Note 18)	-	500,000	-	-
	1,000,000	500,000	-	-

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
Purchases/sales of treasury shares				24	24
At 31 December 2005	531,359	5,064,890	877,625	(158,124)	5,784,391

The total authorised number of ordinary shares at year-end was 531,359 (2004: 531,359) with a par value of SIT 10,000 per share (2004: 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 2005 was 13,001 shares (2004: 13,003 shares).

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

35 Reserves

	2005	2004
Legal reserves	1,666,477	1,387,668
Statutory reserves	23,115,517	20,200,956
General banking reserve	1,171,106	1,171,130
Revaluation reserves	7,534,452	5,849,872
	33,487,552	28,609,626

Movements in reserves were as follows:

	Legal reserve	Statutory reserve	General banking reserve	Revaluation reserve
At 31 December 2003	1,157,333	17,895,290	1,171,130	3,690,247
Addoption of reviewed IFRS 39	-	-	-	1,542,555
Net gains/(losses) from changes in fair value	-	-	-	617,070
Transfer from retained earnings	230,335	2,305,666	-	-
At 31 December 2004	1,387,668	20,200,956	1,171,130	5,849,872
Net gains/(losses) from changes in fair value of AFS investments	-	-	-	1,591,389
Decrease from treasury shares found	-	-	(24)	-
Intangible assets revaluation	-	-	-	93,191
Transfer from retaind profits	278,809	2,914,561	-	-
At 31 December 2005	1,666,477	23,115,517	1,171,106	7,534,452

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, 50% 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 2,648,733 thousand available for distribution at 31 December 2005 (2004: SIT 2,625,817 thousand).

36 Dividends per share

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 7 June 2006, a dividend in respect of 2005 of SIT 5,000 per share (2004: SIT 4,500 per share) amounting to a total of SIT 2,592 million (2004: actual SIT 2,333 million) has been determined. The financial statements for the year ended 31 December 2005 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 2006.

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

37 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:

	2005	2004
Cash and balances with central banks (Note 13)	8,418,712	3,313,577
Due from other banks (Note 14)	33,379,398	30,005,682
	41,798,110	33,319,259

38 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:

	Directors		**Major shareholders**	
Type of related party	**2005**	**2004**	**2005**	**2004**
Loans				
Loans outstanding at beginning of year	-	166	12,926,975	12,709,192
Loans issued during the year	6,000	1,000	660,971,024	49,680,962
Loan repayments during the year	(6,000)	(1,166)	(648,205,194)	(49,463,179)
Loans outstanding as at end of the year	-	-	25,692,805	12,926,975
Interest income earned	8	9	461,112	550,944

No specific provisions have been recognised in respect of loans given to related parties (2004: nil).

	Directors 2005	**Directors 2004**	**Major shareholders 2005**	**Major shareholders 2004**
Deposits				
Deposits at beginning of year	211,133	321,508	29,249,868	14,878,202
Deposits received during the year	1,549,697	929,434	194,954,513	36,523,817
Deposits repaid during the year	(1,525,871)	(1,039,809)	(147,290,671)	(22,152,151)
Deposits at end of year	234,959	211,133	76,913,710	29,249,868
Interest expense on deposits	8,538	25,629	305,573	669,407
Other revenue – fee income	-	-	130,450	116,873
Guarantees issued by the Bank and commitments	-	-	2,362,172	4,087,873

Directors' remuneration
A listing of the members of the Management Board is shown on page 9 of the Annual Report. In 2005 the total remuneration of the directors approximated SIT 176,125 thousand (2004: SIT 172,706 thousand).

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

39 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	-
Other liabilities	(2,353,125)
Goodwill (Note 19)	217,020
Cost of acquisition	553,884
Less: Cash and cash equivalents in subsidiary acquired	(11,555)
Cash outflow on acquisition	(542,329)

40 Post balance sheet events

a) Disposal of Lama d.d.

As at 31 December 2004, the Bank's equity holding in the company was 78.41%. In 1998, following the 1997 debt restructuring for Lama d.d., the Bank acquired a 78.35% stake. The debt-for-equity swap was finalised with the backing of the Government of the Republic of Slovenia and the government guarantee. In 2001, the Bank increased its stake by further 0.06%.

In 2004, the negotiations for the disposal of the Bank's equity holding that started in 2002 continued but the potential buyer withdrew during the year. The debtor and Banka Koper asked the Republic of Slovenia twice in 2004 to reschedule the debt backed by the government guarantee, and the last time by asking for the possibility to repay the obligations that were due on 31 December 2005.

Banka Koper stepped up the activities aimed at disposing of its equity holding in 2005 by approaching other potential investors. In August, the Bank, Lama and Titus from the UK signed a letter of understanding in order to take care of credit relationships between Lama and the Bank. In December, the Bank and Lama signed the Agreement on Closing Claims on Lama, subject to the condition that Titus shall become the principal shareholder of Lama. Lama's obligations to the Bank were settled on 5 January 2006. As of that day, the Bank sold its equity holding to TITUS INTERNATIONAL PLC from the United Kingdom.

As of 5 January 2006, Lama settled all obligations. As of that day, the Bank disposed of its equity holding to TITUS INTERNATIONAL PLC from the United Kingdom. The Bank earned 861.4 million tolars in income from the claims settlement and the equity holding sale.

b) Disposal of Splošna plovba d.d.

As at 31 December 2005, the Bank's equity holding in the company was 21%. In 1998, after debt restructuring (debt-for-equity swap) Bank acquired a 21% stake.

In 2006 the Bank starterd negotiations for the disposal of the Bank's equity holding in Splošna plovba. Equity stake in Splošna plovba d.o.o. was sold for the amount of USD 16 million on 16 June 2006 to Kapitalska družba d.d., Slovenska odškodninska družba d.d., Mercata d.d. and Pomorska družba d.d. The capital gain from the disposal is 2,889,896 thousand SIT.

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

		2005	2004
41	**Reconciliation of net profit and shareholders equity from local standards (SAS) to IFRS**		
	Net profit under local standards	**5,386,930**	**4,957,448**
	Amortisation of negative goodwill *(not recognised under SAS)*	-	(149,043)
	Relise of exchange risk provision (*not recognised under IFRS*)	(452,000)	-
	Market risk provision	350,000	-
	Exchange differences on derivatives (*not recognised under SAS*)	632	(410)
	Remeasurment of loans to customers to their fair value (*adoption of IAS 39 not recognised under SAS*)	(373,048)	1,214,876
	Remeasurment of off balance sheet exposure to fair value *(adoption of IAS 39 not recognised under SAS)*	72,530	(313,969)
	Remeasurment of originated loans to their fair value *(adoption of IAS 39 not recognised under SAS)*	(767,808)	-
	Retirement and long service bonus	(282,571)	(16,685)
	Deferred tax charge *(not recognised under SAS)*	58,273	(221,054)
	Net profit under IFRS	**3,992,938**	**5,471,163**
	Net profit under local standards (SAS)	5,386,930	4,957,448
	Total adjustments	(1,393,992)	513,715
	Net profit under IFRS	**3,992,938**	**5,471,163**
	Shareholders' equity under local (SAS) standards	**38,673,265**	**35,792,925**
	Share premium *(the difference recognised under IFRS)*	(648,663)	(648,663)
	Treasury shares *(taken as diminution of share capital under IFRS)*	(158,124)	(158,148)
	Retirement and long service bonus *(not recognised under SAS)*	(572,083)	(360,155)
	Valuation of loans due to adoption of IAS 39 *(not recognised under SAS)*	1,001,039	1,280,825
	Valuation of off balance sheet exposure due to adoption of IAS 39 *(not recognised under SAS)*	(149,752)	(204,150)
	Valuation of AFS securities due to adoption of IAS 39 *(not recognised under SAS)*	3,592,464	1,853,791
	Valuation of originated securities due to adoption of IAS 39 *(not recognised under SAS)*	-	767,810
	Amortisation of negative goodwill *(not recognised under SAS)*	432,225	432,225
	Transfer of M banka profit *(the difference in profit between SAS and IFRS)*	216,437	216,437
	Intangible assets revaluation *(not recognised under IFRS)*	-	(93,191)
	Reserves for general banking risk *(not recognised under shareholder's equity in SAS)*	1,160,675	1,350,175
	Shareholders' equity under IFRS	**43,547,483**	**40,229,881**
	Shareholders' equity under local standards (SAS)	38,673,265	35,792,925
	Total adjustments	4,874,218	4,436,956
	Shareholders' equity under IFRS	43,547,483	40,229,881

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To the Shareholders and Board of Directors of Banka Koper d.d.

We have audited the accompanying consolidated balance sheet of Banka Koper d.d. and its subsidiary (the 'Group') as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005, and of the results of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PricewaterhouseCoopers d.o.o.

16 June 2006