



Material

**for the 13th Annual General Meeting of Shareholders of NLB d.d.
30 June 2008**



PUBLICATION OF THE AGENDA AND PROPOSED RESOLUTIONS TO BE PASSED AT THE 13TH ANNUAL GENERAL MEETING OF SHAREHOLDERS OF NLB D.D.

Pursuant to Article 295 of the Companies Act and Article 13 of the Articles of Association of NLB d.d., the Management Board of NLB d.d. hereby convenes the

13th Annual General Meeting of Shareholders of NLB d.d.

scheduled for Monday, 30 June 2008, at 1 p.m. in the Conference Hall on the ground floor of the corporate building at Trg republike 3 in Ljubljana

with the following agenda:

1. Opening, establishment of quorum and election of the working bodies of the General Meeting of Shareholders

The Management Board proposes the following resolution be adopted:

The working bodies of the General Meeting of Shareholders are elected as follows:

- Milan Jerman, member of the Credentials Committee, and
- Sarah Bogdan, member of the Credentials Committee.

2. Presentation of the 2007 Annual Report and the Supervisory Board Report on the results of examining the 2007 Annual Report

The Annual General Meeting of Shareholders of the NLB d.d. acknowledges the adopted 2007 Annual Report and the Supervisory Board's report on the results of examination of the 2007 Annual Report.

3. Decision on the allocation of distributable profit for 2007 and granting a discharge from liability to the Management Board and the Supervisory Board

The Management Board and the Supervisory Board propose the following resolution be adopted:

3.1. Distributable profit of the NLB d.d. for 2007 equalling € 62,199,175.66 shall be distributed as follows:

- A portion of the distributable profit of € 47,468,724.16 from net profit for 2007 shall be allocated to dividend payout of gross € 5.33 per share;
- A portion of the distributable profit of € 14,633,541.00 from net profit for 2007 totalling € 11,859,095.70 and the undistributed retained profit totalling € 2,774,445.30 shall be allocated to other revenue reserves;
- A portion of the distributable profit of € 96,910.50 from net profit for 2007 shall be allocated to remuneration of the Supervisory Board members.

The right to dividend shall be held by shareholders entered in the share register at the end of 1 September 2008. Should on this day, pursuant to the Management Board's resolution on increasing the capital of 8 January 2008 which was approved by the Supervisory Board with the resolution of 18 January 2008, the shares still not be issued, the dividend shall also be paid out to

those shareholders to whom shares were allocated prior to the abovementioned date based on the abovementioned resolutions, under the condition that the increase in share capital, in line with the above-said resolutions, is entered in the Companies Register no later than on this date. The Bank's obligation towards the shareholders shall fall due on 30 September 2008.

A discharge from liability is hereby granted to the Management Board and the Supervisory Board for the 2007 business year.

4. Election of substitute members of the Supervisory Board

The Supervisory Board proposes the following resolution be adopted:

The General Meeting of Shareholders of NLB d.d. hereby establishes that Matic Tasič, Member of the Supervisory Board, submitted his letter of resignation on 22 October 2007 and that Frans Florquin, Member of the Supervisory Board, submitted his letter of resignation on 29 June 2008.

The newly-elected substitute members of the Supervisory Board shall be Darko Tisaj, MSc., and Dirk Mampaey; their term of office shall expire on the date of expiry of the term of office of the previous Supervisory Board members, who had been elected at the 10th General Meeting of Shareholders of NLB d.d.

5. Appointment of the auditor for the 2008 financial year

The Supervisory Board proposes the following resolution be adopted:

The audit company PricewaterhouseCoopers d.o.o. Ljubljana is appointed the auditor of the NLB d.d. for 2008.

6. Discussion of the Internal Audit's Report for 2007 and the opinion of the Supervisory Board

The General Meeting of Shareholders of NLB d.d. hereby acknowledges the adopted Internal Audit's Report on Internal Auditing for 2007 and the opinion of the Supervisory Board of NLB d.d.

7. Any other business

In accordance with the Companies Act, the proposer of resolutions under Items 4 and 5 is the Supervisory Board, under Item 1 the Management Board, under Item 3 the Management Board and the Supervisory Board, whereas Items 2 and 6 are for information only and the General Meeting of Shareholders does not vote on them.

All shareholders entered in the Share Register kept by KDD-Centralna klirinško depotna družba, d.d., Ljubljana (Central Securities Clearing Corporation) on the day of submitting the application and by the end of the General Meeting of Shareholders shall have the right to participate in and to vote at the General Meeting of Shareholders provided that they have, either personally or through a proxy or a legal representative, submitted a written application for their participation at the head office of NLB d.d., Ljubljana, Trg republike 2, 1520 Ljubljana, during the period from the day of publication of this convocation up until and including 27 June 2008.

Should on the day the application for participation at the General Meeting of Shareholders, pursuant to the Management Board's resolution on increasing the capital of 8 January 2008



which was approved by the Supervisory Board with the resolution of 18 January 2008, the shares still not be issued and the increase in share capital according to the abovementioned resolutions is entered in the Companies Register on that same day at the latest, the right to participate in and vote at the General Meeting of Shareholders shall also be granted to those shareholders to whom shares were allocated prior to the abovementioned date based on the abovementioned resolutions, and who have, either personally or through a proxy or a legal representative, submitted a written application for participation at the head office of NLB d.d., Ljubljana, Trg republike 2, 1520 Ljubljana, during the period from the day of publication of this convocation up until and including 27 June 2008.

The applications will be accepted as timely if they are received by the Bank's Secretariat up until and including 27 June 2008.

The shareholders will receive the confirmations of the number of their shares by post.

Proxies shall register with written proxy statements in the same manner and by the same deadline as shareholders.

Votes shall be made either personally or by proxy or legal representative. Proxy statements shall be specific and submitted to the Bank in writing and shall state the name and surname, permanent address or company name and registered office of the shareholder and their proxy, personal ID number or company registration number of the shareholder and their proxy, place and date of the proxy statement and signature of the shareholder or their legal representative. Legal representatives of natural persons or legal entities must, on the day of the General Meeting of Shareholders, produce a public document evidencing that they have the right to represent the respective shareholder; the document in question must not be older than 14 (fourteen) days as of the proxy statement date. NLB d.d. shall store the proxy statement.

Substantiated proposals for the adoption of resolutions with explanations and other material on the basis of which resolutions will be passed by the General Meeting of Shareholders according to individual items of the agenda are available to the shareholders for inspection from the day of publishing this convocation on, at the Bank's Secretariat, NLB d.d., Ljubljana, Trg republike 2, Ljubljana, on business days from 8 a.m. to 2 p.m., on the website www.nlb.si and in the electronic notification system of the Ljubljana Stock Exchange (SEOnet).

Ljubljana, 30 May 2008

Management Board of NLB d.d.



FOUNDATIONS FOR THE PROPOSED RESOLUTIONS FOR THE 13TH ANNUAL GENERAL MEETING OF SHAREHOLDERS OF NLB D.D.

Item 1 on the agenda: Opening, establishment of quorum and election of the working bodies of the General Meeting of Shareholders

Management Board of NLB d.d.

hereby proposes to the

General Meeting of Shareholders of NLB d.d.
to discuss and pass the following

proposed resolution under Item 1

- 1. The working bodies of the General Meeting of Shareholders are elected as follows:*
 - Milan Jerman, member of the Credentials Committee, and*
 - Sarah Bogdan, member of the Credentials Committee.*

Explanation

Pursuant to the Companies Act (ZGD-1), the Articles of Association of NLB d.d. (Articles of Association) and the Rules of Procedure of the General Meeting of Shareholders of NLB d.d. (Rules of Procedure) the Management Board is the convenor of the General Meeting of Shareholders. As the convenor, the Management Board is competent and responsible for proposing to the General Meeting of Shareholders the election of the working bodies of the General Meeting of Shareholders, namely the members of the Credentials Committee. The Management Board proposes Mr. Milan Jerman from General Secretariat and Mrs. Sarah Bogdan from the Legal and Compliance Office, members of the Credentials Committee of the 13th Annual General Meeting of Shareholders.

In line with the Articles of Association and the Rules of Procedure, the Management Board is competent to appoint the Chairperson of the General Meeting of Shareholders and ensure that a notary public is present. The Management Board appointed Mr. Anton Ribnikar, Head of the Legal and Compliance Office, Chairman of the General Meeting of Shareholders and invited Miro Košak, a notary public from Ljubljana, to attend the General Meeting of Shareholders, who accepted the invitation and confirmed his attendance.

Management Board of NLB d.d.



Item 2 on the agenda: Presentation of the 2007 Annual Report and the Supervisory Board Report on the results of examining the 2007 Annual Report

Explanation

Since the amendment F to the Companies Act which entered into force in 2001 places the competence for the adoption of the Annual Report primarily onto the Supervisory Board and since the General Meeting of Shareholders decides on the adoption of the Annual Report only in specific cases, of which this is not one, the General Meeting of Shareholders shall under this item of the agenda only acknowledge the adopted Annual Report for 2007 and the Report of the Supervisory Board of NLB d.d.

In 2007, the Supervisory Board of NLB d.d. supervised the operations of NLB d.d. and the NLB Group in the scope of authorisations and powers specified in the legal regulations and the Articles of Association.

Due to all above stated findings the Supervisory Board of NLB d.d. at its 21st regular meeting held on 14 April 2008 adopted the Annual Report for 2007 without comments and in the form submitted by the Management Board.

In line with Article 282 of the Companies Act the Supervisory Board of NLB d.d. prepared its Report for the General Meeting of Shareholders.

Attachments:

1. The NLB Group 2007 Annual Report
2. The Report of the Supervisory Board of NLB d.d.



The Report of the Supervisory Board of NLB d.d.

On 29 June 2005 the Supervisory Board was appointed until the conclusion of the Bank's Annual General Meeting of Shareholders, which decides on the Annual Report for the fourth business year from the election of members, and started 2007 in the following composition: Žiga Lavrič, Peter Ješovnik, Katja Božič, Igor Marinšek, Tomaž Rotar, Zvonko Ivanušič, John Hollows, Jan Vanhevel, Riet Docx, Frans Florquin and Anne Fossemalle.

After the changes in 2007, the Supervisory Board has been functioning in the following composition: Igor Marinšek, Peter Ješovnik, Katja Božič, Marko Rus, Iztok Bričl, Matic Tasič¹, John Hollows, Jan Vanhevel, Riet Docx, Frans Florquin in Anne Fossemalle. The term of office of all members will last until the expiry of the term of office of the Supervisory Board's members appointed at the regular General Meeting of Shareholders of NLB d.d. on 29 June 2005. Igor Marinšek was appointed the new Chairman of the Supervisory Board.

The framework for the operations of the Supervisory Board was besides the generally applicable laws and implementing regulations of external regulators (especially the Bank of Slovenia) defined also by the Articles of Association and the Rules of Procedure of the NLB as well as other legal standards referring to the operations of the Bank in Slovenia and internationally.

Support to decision-making was provided to the Supervisory Board by four committees: Development Committee, Audit Committee, Risk Committee and Remuneration Committee.

In 2007, the Supervisory Board held nine regular and five correspondence meetings, where it discussed the operations of NLB d.d., its subsidiaries and the NLB Group as a whole.

The Supervisory Board adopted the Annual Report for 2006 and assessed the work of the Management Board and the achieved business results as successful, especially from the point of view of the generated return and cost-effectiveness of operations, the preservation of the market share in Slovenia and intensified presence on the target markets abroad. It also approved all proposals of the Management Board to be adopted at the General Meeting of Shareholders.

In relation to the set strategic goals of NLB d.d., especially the development of the NLB Group, the Supervisory Board discussed and supported all resolutions proposed by the Management Board pertaining to consolidation in the markets of Slovenia, Serbia and Bosnia&Herzegovina, and the Group's penetration to the Kosovo market.

Special attention was paid to the management of the Bank's capital adequacy as a key condition for the realisation of the set business and development goals. Thus, it approved the issue of 325,733 new shares of the NLB on the proposal of the Management Board and based on a valid resolution of the General Meeting of Shareholders on authorised capital, whereby the Bank gained the necessary scope of own funds for consolidation of banking operations within the NLB Group in Slovenia. The total issue was successfully subscribed in November 2007, but more than 99% was paid by existing shareholders of NLB d.d. on the basis of pre-emptive right.

At its 18th meeting the Supervisory Board discussed and approved basic planning documents of NLB d.d., namely the Strategic Guidelines, and Development and Operating Plan of NLB d.d. and the NLB Group for the next period (2008-2010), submitted by the Management Board, including the proposal for the issue of shares based on the authorised capital resolution, which will provide for additional volume of own funds needed for the implementation of the business plans of NLB d.d. and the NLB Group.

¹ The member Matic Tasič resigned on 22 October 2007.



The Supervisory Board - according to its legally defined role and competence - monitored risk management, while actively co-operating with expert committees, acknowledged the findings of bank supervision bodies (Bank of Slovenia) and the reports of the external auditor. It also regularly discussed the reports about the audits of NLB d.d. and the NLB Group, prepared by the Internal Audit according to the approved action plan. By supplementing basic documents which define the function of internal audit, the Supervisory Board also contributed to further development and greater transparency of the operations of NLB d.d. and the NLB Group and its individual members.

On 14 April 2008, the Management Board of NLB d.d., Ljubljana, submitted the 2007 Annual Report to the Supervisory Board, including the audited financial statements of the NLB, the consolidated financial statements of the NLB Group and the auditor's opinions. According to the auditor, the financial statements with notes give a true and fair view of the financial position of the Bank and the NLB Groups as at 31 December 2007 and are in compliance with the International Financial Reporting Standards. It is also established on the basis of the audit of the business report that the information contained in the business section of the Annual Report is consistent with the financial statements of the Bank and the NLB Group. On this basis, the Supervisory Board approved the Annual Report for 2007 and the proposal of the Management Board on the allocation of distributable profit, which is proposed to be adopted by the General Meeting of Shareholders of NLB d.d.

The Supervisory Board establishes that the operations of NLB d.d. were extremely successful in 2007, since all key goals set out in the annual action plan were exceeded. This applies to all key performance parameters, especially cost-efficiency and profitability.

The Supervisory Board commends the Management Board of the Bank and all employees for their contribution and achievements in 2007, and stresses that they represent a commitment for continued successful development also in different and somewhat more demanding market conditions, as exist at present.

Igor Marinšek
Chairman of the Supervisory Board

Item 3 on the agenda: Decision on the allocation of distributable profit for 2007 and granting a discharge from liability to the Management Board and the Supervisory Board

The Management Board of NLB d.d. and the Supervisory Board of NLB d.d.

hereby propose to the

General Meeting of Shareholders of NLB d.d.
to discuss and pass the following

proposed resolution under Item 3

3.1. Distributable profit of the NLB d.d. for 2007 equalling € 62,199,175.66 shall be distributed as follows:

- *A portion of the distributable profit of € 47,468,724.16 from net profit for 2007 shall be allocated to dividend payout of gross € 5.33 per share;*
- *A portion of the distributable profit of € 14,633,541.00 from net profit for 2007 totalling € 11,859,095.70 and the undistributed retained profit totalling € 2,774,445.30 shall be allocated to other revenue reserves;*
- *A portion of the distributable profit of € 96,910.50 from net profit for 2007 shall be allocated to remuneration of the Supervisory Board members.*

The right to dividend shall be held by shareholders entered in the share register at the end of 1 September 2008. Should on this day, pursuant to the Management Board's resolution on increasing the capital of 8 January 2008 which was approved by the Supervisory Board with the resolution of 18 January 2008, the shares still not be issued, the dividend shall also be paid out to those shareholders to whom shares were allocated prior to the abovementioned date based on the abovementioned resolutions, under the condition that the increase in share capital, in line with the above-said resolutions, is entered in the Companies Register no later than on this date. The Bank's obligation towards the shareholders shall fall due on 30 September 2008.

3.2. A discharge from liability is hereby granted to the Management Board and the Supervisory Board for the 2007 business year.

Explanation

Pursuant to the provisions of the Companies Act, the General Meeting of Shareholders decides about the allocation of distributable profit, based on the audited 2007 Annual Report, adopted by the Supervisory Board at its 21st regular meeting held on 14 April 2008.

The shareholders are entitled to participation in distributable profit (dividends). Their participation in distributable profit is proportional to their equity stakes.

In line with Article 294 of the Companies Act, the General Meeting of Shareholders decides also about the granting of discharge from liability to the Management Board and Supervisory Board for their past work.



Item 4 on the agenda: Election of substitute members of the Supervisory Board

Supervisory Board of NLB d.d.

hereby proposes to the

General Meeting of Shareholders of NLB d.d.
to discuss and pass the following

proposed resolution under Item 4

4. The General Meeting of Shareholders of NLB d.d. hereby establishes that Matic Tasič, Member of the Supervisory Board, submitted his letter of resignation on 22 October 2007, and that Frans Florquin, Member of the Supervisory Board, submitted his letter of resignation on 29 June 2008.

The newly-elected substitute members of the Supervisory Board shall be Darko Tisaj, MSc., and Dirk Mampaey; their term of office shall expire on the date of expiry of the term of office of the previous Supervisory Board members, who had been elected at the 10th General Meeting of Shareholders of NLB d.d.

Explanation

In the period from the previous, 12th General Meeting of Shareholders of NLB d.d., until today, two members of the Supervisory Board resigned, namely Matic Tasič on 22 October 2007 and Frans Florquin on 29 June 2008. Two substitute members must be appointed to their positions in line with Article 21 of the Articles of Association of NLB d.d. Pursuant to the provisions of the Companies Act, such resolution is proposed by the Supervisory Board of NLB d.d., which proposes to the General Meeting of Shareholders to elect substitute members. The term of office of the substitute members shall according to the Articles of Association of NLB d.d. last until the expiry of the term of office of the originally elected members of the Supervisory Board of NLB d.d., who shall be replaced by substitute members.

Supervisory Board of NLB d.d.

Attachment:

1. Description of candidates for the members of the NLB's Supervisory Board.

Description of candidates for the members of the NLB's Supervisory Board.

1. Dirk Mampaey

a) Personal data

Name and surname: Dirk Mampaey
Date of birth: 25 October 1965

b) Education

Period	Study	Institution
...-1983	Mathematics	Stedelijk Hoger Instituut voor Technische Studie
1983-1988	Commercial engineer (Solvay)	Vrije Universiteit Brussels
1995	International Banking School	Union Bank of Switzerland (Wolfsberg Zwitserland)
1998	International Banking School	Corestates Bank (Philadelphia, Pennsylvania)
2000	Advanced management programme	Wharton School, Philadelphia (University of Pennsylvania)

c) Career

08/07- Senior General Manager, Banking Eastern Europe and Russia

04/07-07/07 General Manager in charge of card operations, cash and current accounts, Payment Directorate
CEO of Europay Belgium
Member of the Management Board of BCC Corporate
Member of the MasterCard Western European Customer Forum
Member of the Supervisory Board of Pinto

01/05-03/07 CEO, Retail Northern Antwerp
Member of the Bizidee jury
Antwerpen area: Co-ordination of loans and SMEs

11/01-12/04 KBC Bank, Brussels:
General Manager of General Co-ordination Banking Strategy and Expansion Division
Member of the Central Europe Strategic Committee
Kredyt Bank, Poland:
Member of the Supervisory Board and the Audit Committee
CSOB, Czech Republic:
Member of the Supervisory Board and the Audit Committee
K&H Bank, Hungary:
Member of the Management Board and the Audit Committee
NLB d.d., Slovenia:
Member of the Supervisory Board, member of the Strategic Committee and member of the Audit Committee

11/00-10/01 KBC Bank, Brussels
Assistant General Manager of International Directorate support and monitoring of associates of KBC Bank in Central Europe
Member of the Supervisory Board, Kredyt Bank, Poland
Member of the Management Board, K&H Bank, Hungary

8/99-10/00 KBC Bank, Brussels
Deputy General Director of Central and Eastern European region



11/96-7/99	Kredietbank/KBC Bank, Brussels International Banking/Management Department Senior Regional Manager for the Americas Member of the Belgium Chamber of Commerce - Chile
10/95-10/96	Kredietbank, Antwerpen Corporate Banking Department Senior Sales Officer
5/93-9/95	Kredietbank, Brussels International Directorate/Correspondence Banking Regional Manager for Iran - Near East - Africa
4/90-4/93	Kredietbank, Brussels International Directorate/Correspondence Banking Regional Manager for the Near East - Indian subcontinent - ASEAN
3/89-3/90	Military service (reserve officer)
7/88-2/89	Kredietbank, Antwerp/Genth Trainee

2. Darko Tisaja) Personal data

Name and surname: Darko Tisaj
Date of birth: 16 May 1973

b) Education

Master of Science in Business Administration and Organisation, field of study: Banking Management (MScBa) – regular post-graduate study at the Faculty of Economics in Ljubljana

Bachelor of Science in Economics, field of study: Marketing

c) Career

2008 - Director and owner of a private company ARGON d.o.o.

2004-2007 Consultant authorised by the Management Board, Nova KBM d.d.

- Acquired the licence for membership in the Management Board of Nova KBM (1 February 2005)
- Authorised by the Management Board for financial management (treasury, investment banking, relations with financial institutions – until May 2005)
- Authorised by the Management Board for related parties
- Bad loan management (company rehabilitation projects, e.g. in Steklarna Rogaška, Vinag etc.)
- Business relations with Poštna banka Slovenije (Member of the Supervisory Board of Poštna banka Slovenije)
- Head of Bancassurance – launching of new services
- Member of the Credit Committee, member of the Liquidity Committee and member of the ALCO of the bank
- Chairman of the Supervisory Board of Moja naložba, pokojninska družba, d.d.

2003-2004 Director of the Financial Division, Probanka d.d.

- Head of the Treasury Department (Trading Section, Liquidity Management Section)
- Head of the Investment Banking Department (Stock Brokerage Section, Asset Management and Pension Insurance Funds Section, Corporate Finance Section)
- Head of the Assets and Liabilities Management Department
- Member of the Credit Committee
- Member of the ALCO

2000-2003 Director of the Financial and Accounting Department, Zavarovalnica Slovenica insurance company

- Active role in the takeover of the insurance company Adriatic, zavarovalna družba, d.d.
- Responsible for the project of merging the insurance companies Slovenica d.d. and Adriatic d.d.
- Management of investment portfolios of life assurance and non-life insurance (approx. € 150 million)
- Management of receivables
- Assets and liabilities management and controlling
- Compilation of financial statements and annual reports with the auditor's opinion
- Active role in company recapitalisation



- 2000 State Undersecretary at the Ministry of Finance (2000)
- Head of the Capital Investment Management Department
 - Member of supervisory boards (Chairman of the Supervisory Board of Peko d.d., Member of the Committee of the Lipica Stud Farm)
- 1999-2000 Director of the Strategic Development Department, Zavarovalnica Slovenica insurance company
- 1998-1999 Head of the Planning and Analysis Department, Zavarovalnica Slovenica insurance company



Item 5 on the agenda: Appointment of the auditor for the 2008 financial year

Supervisory Board of NLB d.d.

hereby proposes to the

General Meeting of Shareholders of NLB d.d.
to discuss and pass the following

proposed resolution under Item 5

5. The auditing company PricewaterhouseCoopers d.o.o. Ljubljana is appointed the auditor of the NLB d.d. for 2008.

Explanation

Pursuant to Article 298 of the Companies Act, this resolution was proposed by the Supervisory Board of NLB d.d., which proposed the General Meeting of Shareholders to appoint the auditing company PricewaterhouseCoopers d.o.o., Ljubljana, since this company belongs to an international auditing group and because NLB d.d. has co-operated with it in the past.

Supervisory Board of NLB d.d.

Attachments:

1. Assessment of External Auditor's Work
2. Credentials of the External Auditor

Assessment of External Auditor's Work

The auditing house PricewaterhouseCoopers has for five years in a row audited the Annual Report of the NLB d.d. and the NLB Group. In line with the established procedures we conducted the annual survey with the aim of assessing the quality and efficiency of the work of external auditors in the year. The following criteria applied:

- Technical knowledge and qualifications of the auditors,
- Provision of consistent audit group,
- Implementation of services in line with the agreements and expectations,
- Adequacy and usefulness of submitted recommendations,
- Clear communication,
- Comparison of service quality with the past year.

Below we present the positive and negative assessments of PricewaterhouseCoopers' work, separately for the Bank and other Group members.

NLB	
+	-
High level of professionalism, expertise and skills	Lack of expertise in certain specific areas
Cooperation and flexibility	Lack of advice – new ideas in certain specific areas
Fast response and start of work in line with agreed deadlines	Slow response to some raised issues
Clear and effective communication	
Quality of services meets expectations	
Flexibility with regard to deadlines for preparing and submitting various reports	
Correct cooperation	

The table shows that the Bank has no major objections to the work of external auditors in 2007. Experiences are positive and cooperation well established. Their knowledge and skills contributed to effective communications and seeking the best solutions. Audits were performed in line with expectations of the Bank's relevant departments. The Internal Audit deems cooperation with external auditors good and effective.

NLB GROUP	
+	-
Expertise & professionalism	Failure to comply with the agreed deadlines/delays in submission of final opinion and letter to the management
Cooperation	Constant changes of team members
Clear communication	
Fast response and start of work in line with agreed deadlines	
Noticeable improvement in work quality compared to the year before	



Other members of the NLB Group were also generally satisfied with the services of PricewaterhouseCoopers. Satisfaction is greater on average than in previous years. Co-operation was for the most part undisturbed. The quality of work was satisfactory because of good knowledge of the NLB Group and expertise of audit teams. The members were not satisfied with constant changes in audit teams (the majority of members) and failure to meet contractual deadlines in submitting of the audit opinion (the Belgrade office of PricewaterhouseCoopers). Only three members of the NLB Group expressed their dissatisfaction with the auditors' work in 2007, namely insurance company and two factoring companies.

On the basis of many year's experience and acquired opinions we estimate that the auditing company PricewaterhouseCoopers is suitable for auditing the Annual Report of NLB d.d. and the NLB Group for 2008. Given the proposed appointment this auditing house will for the sixth year in a row audit the Bank and the Group which is deemed suitable also with respect to procedures for the selection of the external auditor adopted at the 4th regular meeting of the Audit Committee on 16 February 2006 and which, among other things, stipulate that the external auditor should be replaced in 5-7 years.



Credentials of the External Auditor

Company name: **PRICEWATERHOUSECOOPERS d.o.o.**
Registered office: **Parmova 53, 1000 LJUBLJANA**

Credentials:

- 1.) The company is an international auditing company with a lot of experience in the field of the auditing of financial institutions, and familiar with the International Financial Reporting Standards.
- 2.) It has professional and quality audit teams.
- 3.) It has offices in all countries in which the members of the NLB Group are operating.
- 4.) Good knowledge of the NLB Group.
- 5.) Good co-operation, quick responsiveness and provision of quality services.
- 6.) Its other clients in Slovenia:

Banks:

Nova Ljubljanska banka d.d., Banka Celje, NLB Koroška banka, NLB Banka Zasavje, NLB Banka Domžale, Abanka Vipava, Banka Koper, Gorenjska banka, Factor banka;

Insurance companies:

Adriatic Slovenica d.d., Slovenica - Življenje, Generali, ARAG, NLB Vita, Skupna pokojninska družba;

Financial holdings:

KD Group, KD Holding, Infond Holding, Maksima Invest;

Management companies:

NFD, KD Investments, Abančna družba za upravljanje, NLB Skladi;

Investment funds:

All investment and mutual funds managed by the abovementioned management companies.



Item 6 on the agenda: Discussion of the Internal Audit's Report for 2007 and the opinion of the Supervisory Board

Explanation

This is an informative item on the agenda which is according to the Companies Act and the Banking Act not voted on by the General Meeting of Shareholders.

Article 201 of the Banking Act stipulates that the Internal Audit Department must formulate an annual report on internal auditing and submit it to the Management Board and the Supervisory Board. The Management Board must submit to the General Meeting of Shareholders the said report together with the opinion of the Supervisory Board, the Annual Report of the Bank and the Report of the Supervisory Board. Article 74 of the Banking Act further requires that the members of the Supervisory Board explain to the General Meeting of Shareholders their opinion on the Internal Audit's Annual Report.

At its 21st regular meeting held on 14 April 2008 the Supervisory Board of the NLB d.d. discussed and approved the Internal Audit's Report for 2007.

Attachment:

1. Internal Audit's Report for 2007



Internal Audit's Report for 2007

Polona Južnič
Director of Internal Audit

1. IMPLEMENTATION OF THE ANNUAL PLAN

In 2007 the Internal Audit performed regular internal audits in line with the adopted Action Plan as well as unscheduled (extraordinary) audits and other regular and extraordinary activities. The Internal Audit performed 102 audits of various activities of the NLB and members of the NLB Group thereby implementing the adjusted annual action plan with 6 audits formally completed in the first few weeks of 2008. The Audit Committee and the Supervisory Board of NLB d.d. regularly monitored the implementation of the plan and discussed and adopted individual quarterly reports of the Internal Audit.

Audit type	Number of audits	Number of implemented audits
Concluding audits from the 2006 Plan	3	4
Regular audits from the 2007 Plan	77	92 ²
Extraordinary audits	-	6
Total	80	102
Audits of contractual exchange offices ³	50	44

2. SUMMARY OF MAJOR AUDIT FINDINGS

Below we present the assessment of the efficiency of risk management and the functioning of the internal control system in individual areas of NLB d.d. and the NLB Group. The estimates are based on completed audits carried out by the Internal Audit in 2007.

2.1. NLB d.d.

Branch network

On the basis of unannounced audits in the branches of the Branch Network it is estimated that the adequacy and efficiency of risk management and the functioning of internal controls improved, especially in the area of payment instruments transactions. The majority of issued recommendations are based on treasury operations, assurance of physical protection, consistent compliance with the money laundering prevention rules in the opening of clients' accounts and exercising of supervision controls by the managements of the branches.

In the last two years, the Bank paid a lot of attention to the area of depository and safe deposit operations. The Bank of Slovenia adopted an implementing act and imposed on the banks additional requirements for improving the safety of safe deposits that the Bank fully complied with and implemented. Operating and supervision controls in this area have been set up and are reliable. So far, the Bank has recorded no complaints from the clients or loss events. Updated instructions and new software will also eliminate the inconsistencies in the implementation of procedures, record keeping and charging of fees.

With the introduction of the new currency, the number of abuses at ATMs in Slovenia increased, which is why we recommended they be upgraded to the EMV standards or chip technology. To this end the Bank has already provided additional funds. We have also established progress in the field of assuring physical protection of ATMs. The Bank adopted uniform standards for installing and fixing ATMs which are yet to be implemented in practice. The issued recommendations refer to the modernisation of internal instructions for work, commission approach in the filling of ATM cash boxes, training of employees and consistent record keeping.

² The actual number of completed audits is higher than the number of planned audits; this is due to more unannounced audits in NLB d.d. branches.

³ Exchange offices are not organisational parts of the Bank. Audits are conducted in line with the decision of the Bank of Slovenia.

Treasury operations

Key operating controls in the area of central vault cash operations and day-and-night safe deposit box for corporate clients are in place and operating. Supervision controls have to be strengthened. In 2006, the Bank started gradually introducing new IT support which will change the existing processes and organisation and consequently increase the safety of operations.

Due to the requirements of the European banking sector, SEPA, and the acquisition of three Slovenian banks, cash operations will be even more dependent on development requirements that will dictate many organisational changes as well as the standardisation of processes.

Card operations

A significant progress was established in the area of early detection of frauds compared with previous periods. The Bank started using the IT solution for this purpose and adopted the recommended organisational and personnel solutions. In the area of payment card issuing, the operative controls are mostly in place. In the future, we will have to ensure reliability of their operation by eliminating the initial errors identified in the phase of accepting and processing the applications for card issues. Furthermore, we will have to establish subsequent substantial controls in the area of entering data in the card support and controls aimed at preventing unauthorised issuing of cards or data change.

Credit function

Risk management adequacy and efficiency and functioning of the internal control system of the credit function for corporate and retail clients are estimated as adequate. The regulation of this area was enabled by established work procedures and years of experience of the employees. The recommendations issued mainly refer to better arrangement of credit files, more consistent compliance with internal instructions in the calculation of the clients' creditworthiness, regular supplementing of internal instructions, compliance with the contractually agreed purpose of drawing loans and adequate delimitation of loan granting and drawing functions. In connection with the new software in the area of corporate lending we recommended adequate organisational and personnel adjustment of the Bank's commercial part, establishment of control over the accuracy of data on collaterals and strict compliance with internal instructions in the calculation of claim recoverability.

Financial management

Risk management adequacy and efficiency and functioning of the internal control system of the Bank's financial management are estimated as adequate to deficient.

In the area of statutory reporting, the Bank is efficiently managing the risks related to the provision of data for the preparation of ECB reports and has provided a harmonised reporting system with adequate data controls by setting up the "data warehouse". We have recommended strengthening of controls at the level of analytical bookkeeping and systematic monitoring and elimination of established errors at data source (i.e. the Bank's front offices).

In the area of calculating capital and capital adequacy for currency risks the quality of reporting by the members of the NLB Group, especially the non-banking companies (leasing and factoring), will have to be improved. Namely, they have large amounts of open positions and net foreign exchange losses which consequently result in higher capital requirements for currency risks at the consolidated level. The managements of these companies will have to adopt adequate organisational and personnel solutions and adopt the underlying documents for the area of currency risk management and provide the required training and education of employees as well as ensure efficient currency risk management. It will also be necessary to set up/strengthen the substantial control of parent companies over the accuracy of reporting and currency risk management of their direct subsidiaries.

The area of income tax accounting will have to be regulated in the sense of providing adequate, complete and accurate data for the needs of accounting. In the past, the Bank faced several major changes related to tax legislation which it failed to follow by establishing appropriate organisational and personnel structure. Due to large scope of transactions within the NLB Group, more attention will have to be paid to transfer prices. We recommended the strengthening of the control system in the area of data reporting, verification of adequacy of price agreements and policies between the members of the NLB Group and systematic monitoring of characteristics and changes in local tax legislations of foreign members.

In the area of managing the costs related to development projects we recommended strengthening of control over the quality of services provided by outsourcers in connection with the amount of costs incurred, improvement of efficiency and transparency of the system of custody of contracts concluded

with outsourced providers, better transparency of the process of hiring outsourced staff and prompt cost recording.

Market risk management

Market risk management adequacy and efficiency improved. The Bank is currently monitoring the exposure of trading book to position risks (with VaR limits). The reliability of the applied methodology will be checked through regular testing (stress scenarios and back testing). The Bank is regularly monitoring the exposure of banking book to interest rate risk which is regulated by hedge accounting, if required. In the future, interest rate risks will have to be regulated more actively in terms of FX items and exposure to the other two risk factors will have to be monitored: basis risk and early payment options. The Bank's exposure to market risk is regularly monitored by the Assets and Liabilities Management Committee and the Trading and Market Risk Committee.

Custodian services

Risk management adequacy and efficiency and functioning of the internal control system of the Bank's investment funds and securities custody services will have to be improved. In the past, we have noticed rapid growth in the volume of operations which, together with the fluctuation of personnel, has additionally burdened the experienced staff, resulting in the omission of certain key controls, especially supervisory. Nevertheless, we noted certain improvement, e.g. in the area of implementation of the new application for the monitoring of securities custody services, staff strengthening and more formal regulation of the area by means of working instructions. In the future, our efforts will have to be focused on the reduction of the scope of manual procedures, which will be achieved through the connection of the abovementioned support with other applications included in the custody process.

Introduction of new products

Risk management adequacy and efficiency and functioning of the internal control system in the area of introducing new products are generally adequate, with some room for improvements. Therefore, we recommended the establishment of strategic and annual planning, a clearer definition of roles, competences and responsibilities of departments included in the process, and harmonisation of procedures for introducing new products in all segments of the Bank's operations. Due to new regulatory requirements, we will have to ensure strict implementation of the analyses of risks related to the introduction of new products. As an example of good practice we would like to point out the process of introducing new products in the area of financial markets which the Bank should pursue in regulating other areas as well.

General operations

In purchasing we noticed improvements compared with the previous year in terms of formal regulation of the area with internal acts, monitoring of suppliers and implementation of new IT support for planning and monitoring the implementation of the plan. Due to insufficient automatic controls in the application, a lot of attention will have to be paid to the input and verification of individual documents. We recommended stricter control over the operations with the suppliers, the compliance of contracts and order forms, and in particular appropriate delimitation between the costs of investments and intangible long-term assets with the aim of establishing accurate bookkeeping records.

The regulation and operation of Compliance Office are adequate. The function is appropriate in terms of the existence of internal instructions and policies, monitoring of legislative changes and their implementation into the Bank's internal rules. In the future, more attention will have to be paid to the implementation of concrete supervision of the Bank's compliance with the policies and instructions and adequate IT support will have to be implemented for the monitoring and analysing of fraud and abuse identifiers.

Payment systems

The adequacy and efficiency of risk management and the functioning of internal control system was assessed as adequate in international payment transactions. We recommended the internal control system be upgraded by the production of the missing internal instructions and their regular updating, strengthening of controls in the processing of payment orders and strict compliance with the legislation on the prevention of money laundering.

The Bank has introduced many changes in the area of payment systems through the development projects Target 2, SEPA and PAV (modernisation of IT supports). The Bank adequately manages the risks related to the introduction of changes, which was proved by successful transition to Target 2 and the SEPA credit payments migration. Due to many projects in the Bank that include the development and changes in the IT area, we recommended the limitations of the test environments be analysed and inventoried and instructions drafted for their efficient management and use, while the errors identified during the testing are to be recorded consistently.

Information technology (IT) and operating risks

The management of the system of operating risks in the IT area is regularly improving and was assessed as adequate. Establishment of Basel principles followed the legislative directions. We pointed out the need for immediate finalisation of operating risk line management system and implementation of the rules of outsourcing management especially in terms of protecting information and confidentiality of personal data, to which the Bank will have to pay great attention in all areas of operation.

In the future, the Bank will have to draft a profile of IT risk and establish an efficient process for managing and documenting information architecture, thus ensuring the development of adequate solutions that will follow the strategic orientations. Activities are underway.

In spite of considerable improvement of the test environment management process, even more attention will have to be put on this area, mainly due to large scope and mutual dependence of development programmes. This also applies to the development of solutions in the area of application data archiving with the aim of ensuring good responsiveness of various supports. Furthermore, we will have to improve the control system and the management of risks arising from the introduction of changes and amendments, management of access authorisations and in the event of interventions. More attention will have to be paid to personnel and know-how management.

2.2. NLB Group

In 2007, the Bank focused a lot of its efforts on further construction of the **Corporate Governance** system, which was reflected in the strengthened role and operation of the NLB Group Management Centre, and considerable improvement of efficiency of individual business lines. In the future, a systematic control will have to be established over the data reported by the members of the NLB Group and the missing minimum standards adopted in individual areas of operations. We will have to introduce uniform strategic orientations and methodological approaches in the area of IT and operating risks management.

Three **Slovenian banks** are being acquired by NLB d.d. and the process is planned to be terminated in May 2008. The project is well structured and the work organised appropriately. The employees are aware of the risks and adopt adequate measures to eliminate or at least reduce them. We have pointed out the significance of planning and managing the activities after the date of the formal acquisition, since the IT support will not be fully centralised. Considerable attention has to be paid to the organisation of data on the clients, which will be transferred to the NLB's data warehouse and applications with the acquisition.

In **foreign banks**, the adequacy and efficiency of risk management and internal control system operation is constantly improving. In 2007 some organisational changes were introduced, the system of authorisations and financial reporting was set up in the new IT solution for the needs of consolidated supervision. In the future, the Bank will have to improve the system of credit and market risk management and strengthen the supervision controls. In the IT area, backup locations will have to be set up in the event of primary location breakdown, the missing BCPs will have to be compiled and the international standards followed in the area of risk management.

In general, the adequacy and efficiency of risk management and the functioning of internal control system in the companies engaged in **leasing activity** was assessed as adequate. The issued recommendations mainly refer to the provision of reliable functioning of IT support with efficient protection of information, especially personal data. In the business area we recommended consistent establishment of provisions for bad debt in line with the prescribed methodology and strengthening of the supervision of the parent leasing company over the reporting of subsidiaries.

Risk management adequacy and efficiency and the functioning of the internal control system in the audited company performing the **factoring activity** are estimated as adequate. The organisation of the company is suitable. The roles in the process of approving transactions and monitoring of those are clearly defined and delimited. The company provides for continuous training of key personnel and has clear instructions for work. The authorisations for work are well defined and complied with. The issued recommendations are related to inappropriate information support to the business process and low level of coverage of the investment portfolio with the provisions.

The adequacy and efficiency of risk management and the functioning of internal control system in the area of IT in the audited **pension company** was assessed as adequate. The established system is better in the area of IT support functioning compared with the other IT components. The instructions for work are not fully defined, in particular the data archiving is inappropriate as well as the implementation of the supervision over individual IT support components.

3. IMPLEMENTATION OF AUDIT RECOMMENDATIONS

The Internal Audit regularly monitors the implementation of audit/inspection recommendations given by the Internal Audit, the Bank of Slovenia and the external auditor, until they are finally implemented. The Internal Audit regularly/quarterly informs the Management Board and the Audit Committee of the Supervisory Board, respectively, on the status of audit recommendations implementation. The competent and responsible management bodies of the bank are for that purpose obligated to report to the Internal Audit on the implementation of the recommendations quarterly (or when the task is completed). Any extension of the implementation deadline is subject to the prior written approval of the competent Management Board member.

In 2007, a total of 280 audit recommendations were issued by the Internal Audit, the Bank of Slovenia and the external auditor and a total of 237 were implemented. It is estimated that the issued recommendations were implemented with adequate dynamics, which was also proved by the average share of non-implemented recommendations that was relatively high in 2007, ranging around 6% (8-10% in 2006).

4. ORGANISATION OF WORK AND HUMAN RESOURCES

In 2007, the Centre's internal organization remained unchanged. Formally, the Internal Audit functions as a single management support service, and it is informally divided into 6 areas of operations: branch network, credit risks, non-credit risks & payment transactions, financial management, information technology & operating risks and supervision of the internal auditing function in the NLB Group. Each area has a manager responsible for professional and efficient work in their area and further development of internal audit standards and procedures.

As at 31 December 2007, the internal Audit had 32 employees. Allocation of employees by area is presented in the table below.

Area of work	Number of auditors
Management of the Internal Audit	2
Administration	1
Branch network	6
Credit risks	6
Information technology	5
Non-credit risks & payment transactions	6
Financial management and accounting	4
NLB Group – Business Line	2
Total	32

In 2007 there were a few minor personnel changes in the area of financial management (one departure and one arrival) and non-credit risks (one new employee) plus the usual maternity leave absences.

Due to the nature of work, the Internal Audit in 2007 devoted great attention to professional training and education of its staff. Of 32 employees, 7 auditors have adequate professional licences, while 3 auditors participate in the course to obtain the licence. With the aim of being acquainted with the legislation and so as to upgrade existing knowledge, the auditors participated in different trainings, organised by: the Training Centre of NLB d.d., the Slovenian Institute of Auditors, the Bank Association of Slovenia, the Association of Accountants, Treasurers and Auditors of Slovenia, and other domestic and foreign educational institutions.

5. DEVELOPMENT ACTIVITIES OF THE INTERNAL AUDIT

In 2007, the audit company KPMG carried out an independent audit of operation of the Internal Audit in accordance with the rules on internal auditing adopted by "The Institute of Internal Auditors" with the registered office in the USA, and the Slovenian Institute of Auditors. On the basis of this audit the company KPMG assessed that the Internal Audit in all material respects operated in compliance with all Standards for the Professional Practice of Internal Auditing, the Code of Internal Auditing Principles and the Code of Professional Ethics of Internal Auditors as well as with regard to cost-effectiveness, efficiency and effectiveness of operations. On the basis of a positive assessment the Internal Audit may state the following in all its reports:

"The Internal Audit of NLB d.d. operates in line with the International Standards for the Professional Practice of Internal Auditing."

The written report of the company KPMG on the conducted audit which also includes some proposals for upgrading the work of internal auditors was discussed by the Management Board and the Audit Committee of the Supervisory Board of NLB d.d. The Internal Audit studied the proposals and prepared a schedule for their implementation. Most of the proposals have already been implemented or will be in 2008. Thus we have already modernised the underlying act on the establishment and operation of the department (document) and the manual for work.

In 2007 the Internal Audit modernised the self-assessment questionnaire (CSA) for internal auditing in the NLB Group, thus adjusting it to the new methodological approach of auditing based on the COSO and ERM guidelines.

6. OTHER ACTIVITIES

In 2007, the Internal Audit carried out many other activities among which the following should be emphasised:

- a. supervision over Internal Audit Departments in the members of the NLB Group:
 - Gradual introduction of uniform work methodology and internal auditing standards in new banking members of the Group;
 - Organisation of multi-day training sessions;
 - Practical training of internal auditors;
 - Active participation in the process of merging domestic and foreign banks (for internal and external auditing);
 - Expert participation in the audits within the NLB Group;
 - Examining reports of internal audit departments (annual and long-term action plans, quarterly and annual activity reports, quarterly reports on implementation of audit recommendations, material for supervisory bodies of members, etc.).
- b. Co-ordination of inspections by the Bank of Slovenia (gathering and compiling appropriate documentation, organising meetings, defining deadlines and persons in charge of implementing the recommendations given as well as monitoring the implementation of set tasks and recommendations made and reporting);
- c. Co-ordination of the work of external auditors in the entire NLB Group;
- d. Consultancy and issuing of expert opinions to the draft internal regulations and rules;



- e. co-operation in expert committees within the Bank Association of Slovenia and the Slovenian Institute of Auditors.

Ljubljana, March 2008