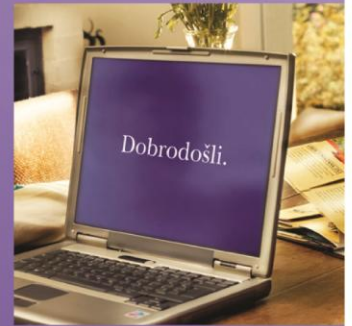
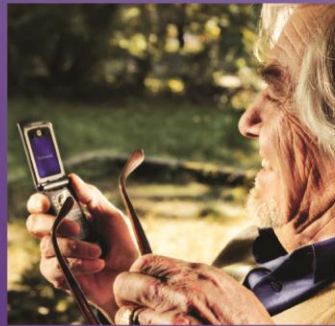


Semi-Annual Report 2011



Key financial data

	NLB			NLB Group		
	2010	1st Half 2010	1st Half 2011	2010	1st Half 2010	1st Half 2011
Key indicators						
Return on equity after tax (ROE a.t.)	-16.2%	-3.5%	0.2%	-17.5% *	-5.8% *	0.2% *
Return on assets after tax (ROA a.t.)	-1.2%	-0.3%	0.0%	-1.1% *	-0.4% *	0.0% *
Cost/income ratio (CIR)	59.3%	60.1%	56.1%	61.5%	62.5%	59.8%
Capital adequacy ratio (CAR)	10.0%	10.6%	12.1%	10.2%	10.7%	12.1%
Tier 1 ratio	6.5%	7.4%	9.0%	6.0%	6.7%	8.0%
Loan/deposit ratio (LTD)	129.8%	125.1%	126.1%	125.7%	126.7%	123.9%
Market share in terms of total assets	27.5%	29.4%	27.4%	-	-	-
Profit and loss account indicators (in million EUR)						
Net interest income	267.0	140.7	142.3	436.1	227.4	220.2
Net non-interest income	151.9	65.0	75.1	203.1	90.0	101.9
Costs	248.4	123.6	121.9	393.1	198.3	192.7
Impairments and provisions	376.8	108.7	90.9	477.0	164.4	125.6
Result before tax	-206.3	-26.6	4.6	-227.0	-40.6	7.0
Result of minority shareholders	-	-	-	-3.6	-0.4	1.2
Result after tax	-183.4	-20.1	1.2	-202.3	-34.6	0.9
Financial position statement indicators (in million EUR)						
Total assets	13,830	15,556	13,653	17,888	19,578	17,432
Loans to non-banking sector	9,200	9,447	9,023	11,880	12,333	11,658
Deposits from non-bankig sector **	7,664	8,011	7,774	10,387	10,515	10,416
Equity	986	1,139	1,226	1,011	1,173	1,255
Equity of minority shareholders	-	-	-	21	24	24
Key indicators per share						
Number of shares	8,905,952	8,905,952	11,061,125	-	-	-
Nominal value (in EUR)	8.3	8.3	8.3	-	-	-
Book value (in EUR)	111.2	128.4	111.2	114.1	135.0	113.8
International credit ratings						
	2010		1st Half 2010		1st Half 2011	
Moody's	A3		A1		Baa3	
Fitch	A-		A-		A-	

* Without taking into account the profits of minority shareholders.

** Including deposits recognised at fair value.

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1 Business Report

Introduction

The NLB Group is Slovenia's largest banking and financial group. As at 30 June 2011, it consisted of 50 banks and companies, while also operating one subsidiary and representative offices in foreign markets. The NLB Group's most important activity is banking which is complemented by other financial activities such as leasing, factoring, forfeiting, insurance and asset management.



Activities

In 2010, the NLB adopted a new strategy which contains a new definition of strategic markets and activities of the NLB Group. The strategic markets of former Yugoslavia remain, while the NLB plans to withdraw from other markets. The NLB Group's focus in terms of non-banking services has also changed as factoring and real estate leasing have become non-strategic activities.

In line with the strategy, the NLB sells its investments in non-strategic markets and investments in factoring companies. The aim of these measures is to achieve the organisational and financial consolidation and capital strengthening of the NLB Group so as to enable a more intensive focus on those markets and activities that have proven to be the most profitable and promising. In those markets, the NLB continues with activities aimed at the search for synergies and streamlining of group member operations. Great emphasis is put on the continued development of corporate governance, especially procedures to harmonise operating standards which were initiated in the past, and the transfer of know-how and best practices within the Group pursuant to the "business line" principle.

Activities in the first half of 2011 followed the new strategic guidelines. In the framework of the project of withdrawing from non-strategic markets, the disinvestment process in the Bulgarian market is about to be completed since the agreement on the sale of NLB Banka Sofia was signed in April and the transaction was completed in July. In March, the process of voluntary liquidation of the company NLB Nova penzija – in liquidation was completed and the company was removed from the Companies Register of the Republic of Serbia. The Bank is also looking for potential buyers or methods to sell other non-strategic investments. With the aim of selling the stake in the company NLB InterFinanz, the 26.72% share in NLB Tutunska banka was transferred from NLB InterFinanz to the NLB in June. Within the scope of reorganising the NLB Group's leasing activity, the NLB's purchase of the company NLB Leasing Sarajevo from NLB Leasing Ljubljana was entered in the Court Register in February.

With the aim of providing an adequate level of capital in companies of the NLB Group, capital was increased in the following companies in the first half of 2011: NLB Srbija, NLB Leasing Sarajevo, NLB Factoring, Optima Leasing and NLB Nov penzijski fond.

In March 2011 the NLB increased its capital by EUR 250 million in two tranches. In the first tranche, the existing shareholders were granted a pre-emptive right based on their existing shares, which was fully exercised only by the Republic of Slovenia as the largest shareholder. The second largest shareholder, KBC Bank, subscribed for shares sufficient to guarantee 25% + 1 share. The remaining shares were offered to the general public in the second tranche and subscribed to by the Republic of Slovenia in full.

On 7 March 2011 the European Commission issued a temporary decision establishing that the Republic of Slovenia's participation in the NLB's capital increase was considered state aid compatible with the common market as it eliminated a deficiency in the Slovenian economy. The final decision on the measure will be adopted after an assessment of the restructuring plan which the NLB has to submit to the European Commission. In the meantime, i.e. until the restructuring plan is approved, limitations apply regarding the payment of dividends and coupons on hybrid instruments, along with restrictions regarding the revocation of hybrid instruments.

Table 1:
Matrix of activities of NLB Group members as at 30 June 2011

		Banking	Leasing	Factoring and forfeiting	Insurance	Asset management	Other activities
Western and Central Europe	Slovenia	NLB, Ljubljana; Banka Celje, Celje*; SIB (in liquidation), Ljubljana	NLB Leasing, Ljubljana; NLB Leasing, Koper; NLB Leasing, Maribor	Prvi faktor, Ljubljana**	NLB Vita, Ljubljana**; Skupna pokojninska družba, Ljubljana*	NLB Skladi, Ljubljana	Prospera Plus, Ljubljana; NLB Propria, Ljubljana; Bankart, Ljubljana*; FIN-DO, Domžale; ICJ, Domžale**
	Austria	Adria Bank, Vienna*					
	Czech Republic			NLB InterFinanz, Prague; NLB Factoring, Ostrava			
	Germany	LHB Internationale Handelsbank, Frankfurt/Main					LHB Immobilien, Frankfurt/Main
	Italy	Trieste Branch, Trieste					
	Slovakia			NLB Factor (in liquidation), Bratislava			
	Switzerland			NLB InterFinanz, Zürich			
Southeastern Europe	Bosnia and Herzegovina	NLB Razvojna banka, Banja Luka; NLB Tuzlanska banka, Tuzla	NLB Leasing, Sarajevo	Prvi faktor, Sarajevo**			Plan, Banja Luka; CBS Invest, Sarajevo
	Bulgaria	NLB Banka Sofia, Sofia***	NLB Leasing, Sofia				
	Croatia		Optima Leasing, Zagreb	Prvi faktor, Zagreb**			LHB Trade, Zagreb; OL Nekretnine, Zagreb
	Kosovo	NLB Prishtina, Pristina					
	Macedonia	NLB Tutunska banka, Skopje	NLB Lizing, Skopje	Prvi faktor, Skopje**	NLB Nov penziski fond, Skopje		NLB Tutunska broker (in liquidation), Skopje
	Montenegro	NLB Montenegrobanka, Podgorica	NLB Leasing, Podgorica		NLB Penzija, Podgorica****		
	Serbia	NLB banka, Belgrade	NLB Leasing, Belgrade	NLB InterFinanz, Belgrade; Prvi faktor, Belgrade**			Conet (in liquidation), Novi Sad; Convest, Novi Sad; NLB Srbija, Belgrade

* Associated companies.

** Joint ventures.

*** The company was sold in July 2011.

**** The company has already acquired an operating licence and is currently acquiring an operating licence for the pension fund.

Key events

January:

- The NLB was one of the main organisers of the successful issue of a new bond of the Republic of Slovenia.

March:

- The international rating agency Fitch confirmed the NLB Group's existing long-term credit rating.
- A capital increase of the NLB in the amount of EUR 250 million.
- The European Commission introduced the procedure for establishing state aid to the NLB.

April:

- The NLB signed an agreement on the sale of its 97.01% stake in NLB Banka Sofia.
- The NLB received the award of the Global Finance magazine for the Best Bank in Slovenia in 2011 for the 14th consecutive time and the Best Bank in Currency Trading in Slovenia in 2011 for the 8th consecutive time.

May:

- Guy Snoeks was appointed a new member of the Management Board of the NLB.

June:

- The international rating agency Moody's lowered the NLB Group's credit rating.
- Partial early redemption of NLB bonds with the guarantee of the Republic of Slovenia in the amount of EUR 296,097,000.

Financial review of operations

In the first half of 2011 the NLB Group recorded a solid result for its operations before provisions totalling EUR 132.6 million and for the NLB in the amount of EUR 95.5 million. The result after tax, which totalled EUR 0.9 million in the NLB Group and EUR 1.2 million in the NLB, was influenced by the high established credit portfolio impairments amounting to EUR 105.3 million at the level of the Group or EUR 70.9 million at the level of the Bank.

The total comprehensive result, which also takes into account evaluations of securities and cash flows otherwise recognised through capital, amounted to minus EUR 3.9 million at the level of the Group and minus EUR 10.4 million at the level of the Bank.

Several positive factors need to be pointed out, namely:

- a series of steps have been taken which resulted in reduced costs and consequently improved cost efficiency;
- the Group had no problems meeting its liquidity requirements; and
- credit granting is selective, following stricter rules and the consistent implementation of the collateral policy.

Profit and loss account

In the first half of 2011, the NLB Group's net interest income totalled EUR 220.2 million, 3% less than in the same period last year. Even though the interest margin grew to 2.6%, the effect was neutralised by a smaller volume of business. In contrast, the Bank generated a net interest income of EUR 142.3 million or 1% more than in the first half of last year.

The biggest share in the structure of net non-interest income is commissions which, at the Group level, amounted to EUR 76.7 million and EUR 58.0 million at the Bank level. The Group's net non-interest income totalled EUR 101.9 million and that of the Bank EUR 75.1 million.

At the Group level, costs decreased by 3% to EUR 192.7 million and at the Bank level they fell by 1%, amounting to EUR 121.9 million. Labour costs, which account for more than half of all costs, remained at last year's respective levels in both the Bank and the Group. On the other

hand, operating costs dropped by 8% at the Group level and 3% at the Bank level compared to the same period last year. Further, depreciation costs were also reduced, namely by 3% and 1% in the Group and the Bank, respectively.

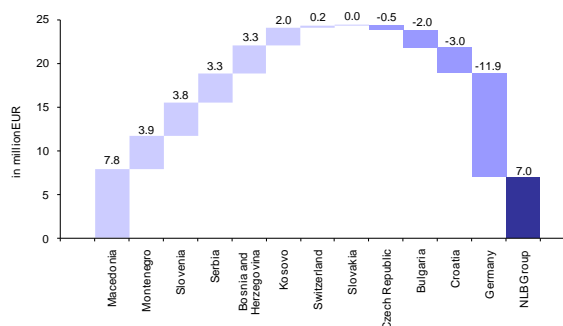
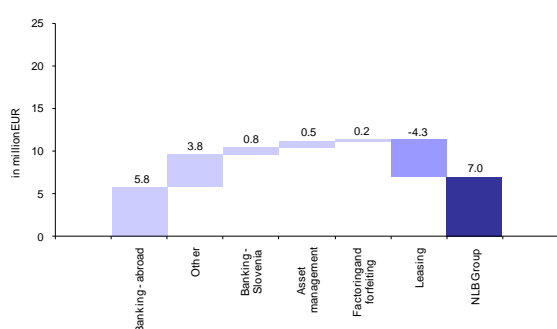
The cost/income ratio (CIR) stood at 59.8% for the NLB Group, i.e. 2.7 b.p. better than in the same period last year, while the same indicator for the NLB improved by 4.0 b.p. to 56.1%.

In spite of the economic recovery, credit risk still had a considerable impact. Consequently, the NLB Group established EUR 125.6 million of additional impairments and provisions in the first six months of 2011, 24% less than in the same period last year, while additional impairments and provisions in the NLB totalled EUR 90.9 million, 16% less than in the same period last year.

Table 2:
Key profit and loss account items

	NLB			NLB Group		
	1st Half 2010 in million EUR	1st Half 2011 in million EUR	Grow th	1st Half 2010 in million EUR	1st Half 2011 in million EUR	Grow th
Net interest income	140.7	142.3	1%	227.4	220.2	-3%
Net non-interest income	65.0	75.1	16%	90.0	101.9	13%
Net fees and commissions	59.5	58.0	-3%	78.1	76.7	-2%
Dividend revenues	14.0	11.1	-21%	1.8	4.8	161%
Net income from financial transactions	-15.6	0.5	103%	-10.9	5.6	152%
Net other revenues	7.1	5.6	-21%	21.0	14.8	-29%
Total net income	205.7	217.4	6%	317.4	322.1	1%
Costs	-123.6	-121.9	-1%	-198.3	-192.7	-3%
Employee costs	-67.9	-67.7	0%	-103.2	-103.5	0%
Operating costs	-39.6	-38.3	-3%	-66.3	-61.1	-8%
Depreciation and amortisation	-16.1	-15.9	-1%	-28.8	-28.1	-3%
Result from equity investments in associates and joint ventures (equity method)	-	-	-	4.7	3.2	-33%
Result before provisions	82.1	95.5	16%	123.8	132.6	7%
Impairments and provisions	-108.7	-90.9	-16%	-164.4	-125.6	-24%
Impairments of financial assets available for sale through equity	-17.3	-19.9	15%	-22.5	-19.9	-12%
Credit impairments and provisions	-91.2	-70.9	-22%	-141.9	-105.3	-26%
Other impairments and provisions	-0.2	-0.1	-70%	0.0	-0.4	924%
Result before tax	-26.6	4.6	117%	-40.6	7.0	117%
Income tax expense	6.5	-3.4	-	5.7	-4.8	-
Result of minority shareholders	-	-	-	0.4	-1.2	-431%
Result after tax	-20.1	1.2	106%	-34.6	0.9	103%
Effects recognised through equity	-11.0	-11.6	-6%	-10.5	-4.8	54%
- from cash-flow hedges	-0.6	1.2	306%	-0.6	1.2	306%
- from financial assets available for sale	-10.4	-12.8	-23%	-9.9	-6.0	39%
Comprehensive result	-31.1	-10.4	67%	-45.1	-3.9	91%

Illustration 1:
Result before tax structure of the NLB Group in the first half of 2011
(by business and geographical segments)



Statement of financial position

At the end of the first half of 2011, total assets of the NLB Group amounted to EUR 17,431.8 million, which is 3% less than at the end of last year, while total assets of the NLB decreased by 1%, reaching EUR 13,652.5 million.

The NLB Group's operations are still marked by the stagnation of credit growth. The results of the recession in the real sector were seen in a deterioration of the Group's asset portfolio and the resulting need to reprogramme loans in those segments most affected by the recession. The NLB Group increased the requirements for collateral and tightened up the criteria on project feasibility, while at the same time it accelerated the process of establishing impairments and provisions since the quality of collateral has deteriorated in the uncertain economic situation.

Thus, loans to the non-banking sector dropped by 2% in the first half of 2011 in both the Bank and the Group, totalling EUR 11,658.4 million for the Group and EUR 9,022.7 million for the Bank.

Deposits from the non-banking sector, on the other hand, remained at the 2010 year-end level, totalling EUR 10,415.9 million for the Group and EUR 7,774.0 million for the Bank.

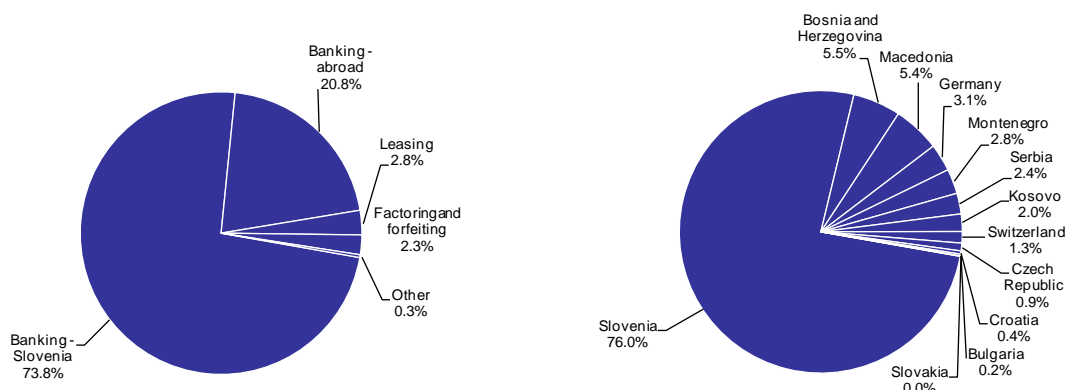
The loan/deposit ratio (LTD) in the non-banking sector dropped by 1.8 b.p. at the Group level in the first half of 2011 to reach 123.9%, while at the Bank level it dropped by 3.7 b.p. to stand at 126.1% at the end of June.

Table 3:
Key financial position statement items

	NLB			NLB Group		
	31. 12. 2010 in million EUR	30. 6. 2011 in million EUR	Grow th	31. 12. 2010 in million EUR	30. 6. 2011 in million EUR	Grow th
ASSETS						
Cash	204.4	208.2	2%	764.9	686.3	-10%
Loans to banks	570.2	492.4	-14%	850.2	753.8	-11%
Loans to non-banking sector	9,199.8	9,022.7	-2%	11,879.7	11,658.4	-2%
Gross loans to non-banking sector	9,945.2	9,805.0	-1%	13,054.4	12,904.4	-1%
- corporate	7,609.0	7,519.9	-1%	9,693.2	9,622.7	-1%
- state	214.2	205.5	-4%	365.8	313.1	-14%
- retail	2,122.1	2,079.5	-2%	2,995.4	2,968.6	-1%
Impairments	-745.4	-782.3	5%	-1,174.7	-1,246.0	6%
Financial assets	2,944.7	2,974.2	1%	3,397.3	3,363.6	-1%
- held for trading	155.2	235.5	52%	157.7	236.5	50%
- available for sale and held to maturity	2,789.4	2,738.8	-2%	3,239.6	3,127.1	-3%
Investments in subsidiaries, associates and joint ventures	533.1	571.0	7%	111.8	111.9	0%
Property and equipment	157.1	152.9	-3%	347.0	346.7	0%
Intangible assets	73.5	66.8	-9%	146.5	137.4	-6%
Other assets	147.4	164.4	11%	390.6	373.7	-4%
Total assets	13,830.2	13,652.5	-1%	17,888.0	17,431.8	-3%
LIABILITIES						
Deposits from non-banking sector *	7,663.7	7,774.0	1%	10,387.0	10,415.9	0%
- corporate	1,504.6	1,431.3	-5%	2,556.4	2,361.4	-8%
- state	865.7	1,067.5	23%	1,121.5	1,313.5	17%
- retail	5,293.4	5,275.2	0%	6,709.1	6,741.0	0%
Deposits from banks	179.4	189.7	6%	227.0	207.8	-8%
Debt securities in issue	1,793.5	1,470.5	-18%	1,804.0	1,478.5	-18%
Borrowings	2,086.5	1,884.4	-10%	3,142.2	2,809.2	-11%
Other liabilities	272.5	267.6	-2%	394.8	370.2	-6%
Subordinated debt	848.4	840.5	-1%	901.5	873.2	-3%
Equity	986.2	1,225.9	24%	1,011.1	1,254.6	24%
Equity of minority shareholders	-	-	-	20.5	24.1	17%
Total liabilities	13,830.2	13,652.5	-1%	17,888.0	17,431.8	-3%

* Including deposits recognised at fair value.

Illustration 2:
Total assets structure of the NLB Group as at 30 June 2011
(by business and geographical segments)



Capital and capital adequacy

Pursuant to the NLB Group's adopted strategy, the NLB's capital was increased with the issue of new ordinary shares in the amount of EUR 250 million in March.

As at 30 June 2011 the regulatory capital of the NLB Group totalled EUR 1,829.8 million, which is EUR 234.5 million more than at the end of 2010. On the same date, the capital adequacy ratio (CAR) was estimated at 12.1% or 1.9 b.p. more than at the end of last year, while the Tier 1 ratio was assessed at 8.0%, namely 2.0 b.p. higher than at the end of 2010.

As at 30 June 2011 the NLB's regulatory capital totalled EUR 1,330.9 million, which is EUR 183.6 million more than at the end of 2010. On the same date, the Bank's capital adequacy ratio (CAR) was 12.1% or 2.1 b.p. more than at the end of last year, while the Tier 1 ratio was 9.0%, which is 2.5 b.p. higher than at the end of 2010.

Risk management

Risk management in the NLB Group is based on the following principles:

- Independence of risk management from specific business lines and independent decision-making.
- The achievement of the Bank's business goals may not be associated with the assumption of unacceptably high risks.
- A long tradition of using different instruments for managing and measuring risks (management of regulatory and internal capital, proactive determination of the most appropriate amount of provisions and impairments, risk value, diversification and other modern methods of portfolio management, score models, internal ratings, economic capital etc.).
- Decisions in the area of risk management are based on an integral assessment of various risk factors. As a rule, no decisions are adopted solely on the basis of the result of a specific quantitative model or methodological approach (the diversification of modelling approaches).
- The risk appetite in the NLB Group arises from the strategic orientation of the Group which foresees a redefining of the target risk profile with the aim to increase conservativeness.
- The strict implementation of centralised reporting and implementation of minimum standards of risk management in subsidiary banks and other financial companies of the NLB Group.

These principles remain valid in circumstances marked by the NLB Group's significant loss in 2010 and the potential negative impact of the economic and financial situation in Slovenia and the crisis in some EU member states.

In the area of risk management, the consolidation process continued in 2011 and the risk model used by the NLB was transferred to members of the NLB Group.

In the NLB Group, credit risk is the most significant type of risk and must be treated very carefully and precisely in view of the current recession. Despite the somewhat calmer situation in international financial markets, a lot of attention must be paid to the liquidity risk of the entire Group. The NLB Group closely monitors and manages operational and market risks, as well as other risk in the process of assessing its internal capital. The banking regulation amendments in the field of credit and liquidity risks, informally named Basel III, which the NLB Group will implement in accordance with the adopted orientations of the regulators, are also considered new challenges.

Credit risk management

Credit risk is managed at two levels in the NLB Group, namely at the level of an individual client (debtor) and at the level of the entire or part of the portfolio of the NLB Group member.

At the level of an individual client, adequate procedures need to be carried out in different phases of the client relationship – before, upon and after signing the contract. In the first phase, client information is essential, among other things enabling an objective assessment of the financial position and credit rating and a determination of the debt ceiling. In the second phase, an appropriate contract is drawn up, including provisions on collateral and covenants. The third phase contains various forms of monitoring the client in terms of the regular settlement of obligations and other relevant data that influence the credit ability or the need to establish and/or change the volume of impairments.

The credit portfolio is regularly monitored by segment type (credit rating, country type and size of client, activity, insurance, poor/overdue receivables, exposure currency etc.). Monitoring includes an analysis of changes and, based on time series, the establishment of trends in the movements, risk level and concentration of the credit portfolio.

The matrices of client migrations between rating groups and similar methods for determining the dynamics of changes in the portfolio are the most important instruments for assessing the quality of the credit portfolio, the characteristics of the internal rating system and the level of exposure to system risk.

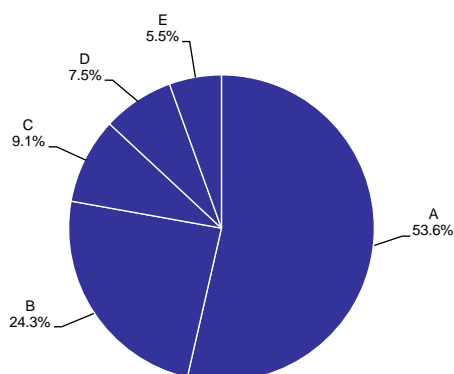
In the credit portfolio, appropriate methods are regularly used to establish and measure the degree of portfolio concentration or diversification.

Through regular reviews of business practices and credit portfolios in the Group members, the NLB ensures that they manage their credit risks in accordance with the minimum risk management standards applicable in the NLB Group. This guarantees reasonably harmonised procedures of managing and monitoring credit risks at the consolidated level. The period of economic crisis has accelerated the following trends in the credit policy area:

- requirements for better quality collateral with strictly applied pledge ratios, with the value being measured by taking the fair value concept into account;
- the increased impairment of receivables and establishment of provisions for assumed liabilities;
- the revision of client credit rating methodologies, which take account of the reduced risk appetite; and
- central monitoring and submission of opinions regarding the granting of major loans in members of the NLB Group.

It should be pointed out that at the end of last year the Bank started introducing additional systems of early warning and detection of problem clients, which are being used in 2011. It updated the procedures for assessing the appropriate level of impairments and provisions with the aim of a timely and accurate response, in terms of amounts, to changes in client quality.

Illustration 3:
**Risk portfolio structure by client's internal credit rating in the NLB
as at 30 June 2011**



Liquidity risk management

Liquidity risk management in the NLB Group is carried out in line with adequate policies and strategies that define the rules and responsibilities system. At the level of the Group, the Bank uses a balanced strategy of liquidity management depending on the sources of financing. Monitoring of the liquidity position and aligned maturity of assets and liabilities is carried out through the analysis and supervision of the structure of assets and liabilities of the Bank and members of the Group.

The liquidity situation in financial markets again deteriorated recently as a result of the debt crisis in some EU member states. Despite the extremely difficult situation in the international capital market, and the reduced credit rating of Slovenian banks during the long-term process of the Bank's capital increase, the NLB successfully acquired a new long-term loan. The Group efficiently takes care of the management of operational and structural liquidity. At the operational level, the Bank manages its liquidity mainly by concluding deals in the interbank money market. The Bank has no problems meeting operational liquidity at the level of the NLB Group. It focuses more of its activities on the provision of structural liquidity and indirectly regulates the structure of its balance by means of interest policy, while the main emphasis remains on attracting long-term household deposits.

A sufficient and high-quality portfolio of secondary liquidity reserves was crucially important for ensuring the liquidity of the entire NLB Group. By virtue of its conservative approach to assuming risk, the NLB and the other banking members of the Group have in the preceding years already compiled a substantial amount of liquidity investments of high quality, mostly government securities, which are assets accepted by the ECB. The total balance of both primary and secondary liquidity reserves at the end of June 2011 accounted for 29.8% of total assets which would enable the Bank access to liquidity for itself and members of the NLB Group, in spite of the unfavourable market situation.

The Group produces even more scenarios in exceptional situations which take account of the specific crises of the Bank and the systemic crises in the broader economic environment. The Bank as well as members of the NLB Group have adopted a crisis management plan as the action plan for regulating liquidity in extraordinary circumstances. The NLB and members of the Group calculate liquidity gaps monthly.

Market risk management

In general, market risk management is supported by the use of modern methodologies and software, as well as the system of reporting, which guarantees adequate control of all market risks in all companies of the NLB Group. Separate guidelines have been set up for banking members and other financial institutions. Further, the Group has decentralised some activities while others are only performed by the NLB. An example of the latter are services related to the trading book which are

performed by the NLB for other members of the Group since the NLB is the only trading bank in the Group.

In terms of market risk reporting, the NLB Group regularly and consistently handles and discusses all types of market risks and adequate limits at the Group ALCO. Exposure to various market risks (currency risks and interest rate risk management in the banking book, price risks and other market risks in the trading book) is relatively low in the Group. This is due to the Group's strategic business orientations in this area, where the openness of positions arises mainly from structural imbalances, while the major part of activities is focused on servicing clients' needs. There has been only one deviation recently, namely the increased portfolio of equity securities arising from the liquidation of received loan collateral, the amount of which is being reduced by gradual sales.

Operational risk management

To monitor operational risk, the NLB Group has set up a system of collecting loss events and identifying and assessing operational risks in a single database. The tolerance ceiling for loss events has been determined. Loss events that exceed this ceiling are subjected to special treatment and further measures are taken, if necessary. In the case of major loss events, the implementation of adopted risk management measures is monitored. The highest ranking operational risks are monitored separately as they could endanger the company's operations.

In the NLB Group, know-how and methodologies are transferred to the banks and other members which are consolidated (except small members). All members have already adopted adequate documents which are in compliance with NLB standards. In this way the NLB operational risk management model has been set up in the entire NLB Group.

Forecast

In 2008, the NLB Group suffered the first impact of the financial and subsequently economic crisis which caused a deterioration of the credit portfolio, increased provisions and impairments, and worse results. The trend continued in 2009 and particularly in 2010, when a loss was recorded. In the first half of 2011, the trend stopped somewhat, as indicated by the positive interim result. With the more conservative crediting policy and maintenance of the adequate coverage of non-performing loans with provisions and impairments, as well as the accelerated collection of non-performing loans, companies of the NLB Group have responded well to the unfavourable economic climate, which is not expected to improve considerably in the second half of the year.

It is estimated that the deteriorated economic situation in the domestic market, the debt crisis in some European countries and the flow-on effects in our strategic markets continue to negatively affect the portfolio of the NLB Group, although to a somewhat smaller extent. The situation in international capital markets remains relatively difficult, with the persisting consequences of the financial crisis.

Funding

The NLB did not have to provide additional long-term sources of financing in the first six months of the year due to the favourable liquidity situation and large volume of secondary liquidity reserves; nevertheless, the Bank started activities to raise finance to cover liabilities in the second half of 2011 and 2012. The most significant activities included the raising of a new syndicated loan as well as activities for future issues of bonds and talks with international financial institutions that grant long-term special purpose credit lines to the Bank. Thus, the NLB signed one credit line in this period, with the EBRD, totalling EUR 30 million, which was intended for members of the NLB Group to finance SME projects.

With the aim of reducing liabilities in 2012 and in accordance with the large scope of secondary liquidity reserves, the Bank repaid the syndicated loan raised in 2008 early and redeemed bonds falling due on 23 July 2012 early, thereby reducing the amount of issued NLB bonds with a guarantee of the Republic of Slovenia from EUR 1,500,000,000 to EUR 1,203,903,000.

To ensure the harmonisation of the NLB Group, all borrowing of Group members in international financial markets was centralised through the NLB as the parent bank coordinates and advises the members in relation to borrowing in these markets. In the first half of the year, members of the NLB Group primarily raised finance by borrowing from Slovenian and foreign commercial banks. Total indebtedness of members of the NLB Group with commercial banks in the first half of the year amounted to EUR 123.95 million. In addition to the above, members of the NLB Group also raised finance by borrowing from multilateral financial institutions (MFI) in the first half of 2011, in a total amount of EUR 14.48 million.

Corporate governance of NLB

Management Board

Pursuant to the Articles of Association, the Management Board of the Bank may be composed of three to six members (President of the Management Board and five members), who are appointed and recalled by the Supervisory Board. The President and members of the Management Board are appointed for a period of five years and may be recalled prior to the expiry of their term of office in accordance with applicable laws and the Bank's Articles of Association.

Members of the Management Board are:

- Chairman: Božo Jašovič (as of 1 October 2009);
- Members: David Benedek (as of 15 July 2009), Claude Deroose (until 16 May 2011), Marko Jazbec, Robert Kleindienst (as of 15 July 2009) and Guy Snoeks (as of 5 July 2011).

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board comprises 11 members who are appointed and recalled by the General Meeting of the Bank from among persons nominated by the shareholders or the Supervisory Board of the Bank.

The Supervisory Board was appointed at the Bank's General Meeting of Shareholders held on 30 June 2009 for the period lasting from their appointment until the end of the Bank's Annual General Meeting which is deciding on the use of distributable profit for the fourth business year since they have been elected. In this context, the first year shall be deemed the business year in which members of the Supervisory Board were elected.

Members of the Supervisory Board are:

- Chairman: Marko Simoneti;
- Deputy Chairman: Rasto Ovin;
- Members: Andrej Baričič, Riet Docx, Jurij Detiček (from 1 July 2010), John Hollows, Anton Macuh (as of 25 November 2010), Igor Masten, Stojan Petrič, Boris Škapin and Jan Vanhevel (until 16 May 2011).

Following the resignation of Jan Vanhevel, no new substitute member of the Supervisory Board was elected in his place by the NLB General Meeting held on 30 June 2011.

General Meeting of Shareholders

On 30 June 2011, representatives of NLB owners gathered at the 17th regular General Meeting of Shareholders. A total of 85.79% of shareholder votes was present at the beginning of the General Meeting.

At the General Meeting, the shareholders acknowledged the adopted Annual Report for 2010 and the Report of the Supervisory Board, the Information on the income of members of the Management Board and the Supervisory Board in 2010, and the Rules of the Supervisory Board of the NLB for determining other rights under the ZPPOGD. The shareholders set the payments for performing the function and the session fees of members of the Supervisory Board and its committees. They also

granted a discharge to the Management Board and the Supervisory Board for 2010 and adopted some amendments and supplements to the Articles of Association of the NLB.

The shareholders present at the General Meeting appointed the auditing house PricewaterhouseCoopers d.o.o., Ljubljana, as auditor for the 2011 financial year.

The NLB has no holders of securities that would ensure specific control rights.

The NLB has no limitations on voting rights as all NLB shares ensure voting rights in compliance with the legislation (with the exception of potential own shares).

Table 4:
Ten largest shareholders of the NLB as at 30 June 2011

	Name of shareholder	Number of shares	Share (in %)
1	Republic of Slovenija	5,045,742	45.62
2	KBC Bank NV	2,765,282	25.00
3	Poteza Naložbe, d.o.o. - in bankructcy	494,860	4.47
4	Slovenska odškodninska družba, d.d.	449,949	4.07
5	Kapitalska družba, d.d.	445,749	4.03
6	Zavarovalnica Triglav, d.d.	280,312	2.53
7	UCTAM d.o.o.	153,461	1.39
8	NFD 1 Delniški investicijski sklad, d.d.	131,693	1.19
9	Triglav vzajemni skladi	108,333	0.98
10	Factor banka d.d.	69,238	0.63
	10 major shareholders - total	9,944,619	89.91
	Other shareholders	1,116,506	10.09
	Total shareholders	11,061,125	100.00

2 Financial Statements

Unaudited financial statements of NLB d.d. and NLB Group

pursuant to the International Financial Reporting Standards as adopted by the European Union

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Income statement

	Notes	NLB		NLB Group	
		H1/11	H1/10	H1/11	H1/10
Interest and similar income	5.1.	349,842	334,377	488,555	481,971
Interest and similar expenses	5.1.	(207,577)	(193,697)	(268,355)	(254,570)
Net interest income		142,265	140,680	220,200	227,401
Dividend income		11,117	13,987	4,755	1,824
Fee and commission income	5.2.	70,934	71,974	99,149	98,554
Fee and commission expenses	5.2.	(12,937)	(12,436)	(22,419)	(20,471)
Net fee and commission income		57,997	59,538	76,730	78,083
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss		(4,519)	(1,693)	(3,853)	(31)
Gains less losses from financial assets and liabilities held for trading	5.3.	(6,513)	(33,866)	(3,525)	(28,545)
Gains less losses from financial assets and liabilities designated at fair value through profit or loss		(1,206)	(5,548)	(1,216)	(5,555)
Fair value adjustments in hedge accounting		341	576	341	669
Foreign exchange translation gains less losses		12,364	24,876	13,863	22,575
Gains less losses on derecognition of assets other than held for sale		25	(27)	(364)	(191)
Other operating income	5.4.	7,296	8,148	19,308	21,120
Other operating expenses	5.5.	(1,351)	(997)	(4,054)	(2,752)
Administrative expenses	5.6.	(106,015)	(107,440)	(164,587)	(166,298)
Depreciation and amortization		(15,914)	(16,145)	(28,123)	(28,849)
Provisions for liabilities and charges		(23,736)	(14,815)	(22,701)	(4,827)
Impairment charge	5.7.	(67,156)	(93,838)	(102,906)	(159,551)
Share of profits of associates and joint ventures accounted for using the equity method		-	-	3,159	4,709
Net loss from non-current assets held for sale		(401)	-	(44)	(375)
PROFIT/(LOSS) BEFORE INCOME TAX		4,594	(26,564)	6,983	(40,593)
Income tax		(3,348)	6,453	(4,834)	5,654
PROFIT/(LOSS) FOR THE PERIOD		1,246	(20,111)	2,149	(34,939)
Attributable to:					
Owners of the parent		1,246	(20,111)	949	(34,577)
Non-controlling interests		-	-	1,200	(362)

Statement of comprehensive income

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Net profit/(loss) for the period after tax	1,246	(20,111)	2,149	(34,939)
Other comprehensive income after tax	(11,613)	(10,991)	(4,929)	(10,526)
Foreign currency translation	-	-	8,362	(2,573)
Cash flow hedges (effective portion)	1,520	(737)	1,520	(737)
Valuation losses taken to equity	(27)	(3,334)	(27)	(3,334)
Transferred to profit	1,547	2,597	1,547	2,597
Available for sale financial assets	(16,029)	(12,928)	(15,304)	(8,876)
Valuation losses taken to equity	(35,145)	(31,801)	(33,754)	(31,315)
Transferred to profit	19,116	18,873	18,450	22,439
Share of other comprehensive income of entities accounted for using the equity method	-	-	(2,630)	(1,444)
Income tax relating to components of other comprehensive income	6.7. 2,896	2,674	3,123	3,104
Total comprehensive income for the period after tax	(10,367)	(31,102)	(2,780)	(45,465)
Attributable to owners of the parent	(10,367)	(31,102)	(3,863)	(45,109)
Attributable to non-controlling interests	-	-	1,083	(356)

Earnings per share

Basic earnings per share is calculated by dividing the net result by the weighted average number of ordinary shares in issue, less treasury shares.

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Net profit/(loss) (in thousand of euros)	1,246	(20,111)	949	(34,577)
Weighted average number of ordinary shares (in thousand)	11,026	8,871	11,026	8,871
Basic and diluted earnings per share (in euros per share)	0.11	(2.27)	0.09	(3.90)

Subordinated loans and debt securities in issue have no future conversion options and consequently there are no potential dilutive ordinary shares.

Income statement – by quarter

	NLB				
	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Interest and similar income	160,866	188,976	143,542	148,567	146,754
Interest and similar expenses	(86,386)	(121,191)	(84,925)	(80,859)	(78,778)
Net interest income	74,480	67,785	58,617	67,708	67,976
Dividend income	7,889	3,228	219	4,349	11,139
Fee and commission income	36,412	34,522	37,982	36,849	36,944
Fee and commission expenses	(6,981)	(5,956)	(7,719)	(6,994)	(6,784)
Net fee and commission income	29,431	28,566	30,263	29,855	30,160
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	(4,649)	130	238	371	(1,939)
Gains less losses from financial assets and liabilities held for trading	(9,896)	3,383	559	4,297	(15,522)
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	-	(1,206)	1,607	(1,425)	(3,898)
Fair value adjustments in hedge accounting	207	134	(184)	393	217
Foreign exchange translation gains less losses	15,338	(2,974)	6,938	4,590	13,780
Gains less losses on derecognition of assets other than held for sale	8	17	(7)	1	(47)
Other operating income	3,260	4,036	4,460	4,006	3,949
Other operating expenses	(832)	(519)	(1,563)	(499)	(719)
Administrative expenses	(54,282)	(51,733)	(57,208)	(51,783)	(55,062)
Depreciation and amortization	(7,962)	(7,952)	(7,917)	(7,907)	(7,948)
Provisions for liabilities and charges	12,103	(35,839)	(14,509)	6,337	(11,564)
Impairment charge	(63,848)	(3,308)	(184,655)	(75,354)	(52,283)
Net (loss)/profit from non-current assets held for sale	(401)	-	(1,593)	37	-
PROFIT/(LOSS) BEFORE INCOME TAX	846	3,748	(164,735)	(15,024)	(21,761)
Income tax	(3,017)	(331)	14,178	2,269	6,141
(LOSS)/PROFIT FOR THE PERIOD	(2,171)	3,417	(150,557)	(12,755)	(15,620)

(All amounts in EUR thousand unless otherwise stated)

	NLB Group				
	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Interest and similar income	229,193	259,362	215,411	221,579	219,950
Interest and similar expenses	(116,436)	(151,919)	(116,567)	(111,726)	(109,182)
Net interest income	112,757	107,443	98,844	109,853	110,768
Dividend income	4,726	29	222	3,197	1,772
Fee and commission income	51,401	47,748	53,615	51,323	50,941
Fee and commission expenses	(11,901)	(10,518)	(12,645)	(11,670)	(11,960)
Net fee and commission income	39,500	37,230	40,970	39,653	38,981
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	(4,475)	622	446	703	(1,849)
Gains less losses from financial assets and liabilities held for trading	(8,409)	4,884	3,712	4,703	(12,936)
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	1	(1,217)	1,678	(1,402)	(3,980)
Fair value adjustments in hedge accounting	529	(188)	(312)	428	95
Foreign exchange translation gains less losses	16,034	(2,171)	6,832	3,861	13,448
Gains less losses on derecognition of assets other than held for sale	(288)	(76)	(781)	(936)	(592)
Other operating income	9,289	10,019	10,378	6,774	11,205
Other operating expenses	(2,455)	(1,599)	(3,342)	(1,437)	(1,749)
Administrative expenses	(84,191)	(80,396)	(87,867)	(78,510)	(85,145)
Depreciation and amortization	(14,071)	(14,052)	(14,114)	(14,266)	(14,516)
Provisions for liabilities and charges	13,113	(35,814)	(24,955)	5,363	(99)
Impairment charge	(83,679)	(19,227)	(200,647)	(92,359)	(94,358)
Share of profits of associates and joint ventures accounted for using the equity method	1,666	1,493	(114)	(739)	1,919
Net (loss)/profit from non-current assets held for sale	(82)	38	(1,975)	(233)	(375)
(LOSS)/PROFIT BEFORE INCOME TAX	(35)	7,018	(171,025)	(15,347)	(37,411)
Income tax	(1,967)	(2,867)	16,101	(724)	5,596
(LOSS)/PROFIT FOR THE PERIOD	(2,002)	4,151	(154,924)	(16,071)	(31,815)
Attributable to:					
Owners of the parent	(2,956)	3,905	(152,804)	(14,908)	(31,921)
Non-controlling interests	954	246	(2,120)	(1,163)	106

Statement of comprehensive income – by quarter

	NLB				
	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Net (loss)/profit for the period after tax	(2,171)	3,417	(150,557)	(12,755)	(15,620)
Other comprehensive income after tax	(10,916)	(697)	(516)	10,833	(429)
Cash flow hedges (effective portion)	(182)	1,702	1,708	532	(291)
Valuation (losses)/gains taken to equity	(942)	915	891	(353)	(1,516)
Transferred to profit	760	787	817	885	1,225
Available for sale financial assets	(13,411)	(2,618)	(2,353)	12,935	(171)
Valuation losses taken to equity	(27,993)	(7,152)	(4,879)	(13,398)	(19,289)
Transferred to profit	14,582	4,534	2,526	26,333	19,118
Income tax relating to components of other comprehensive income	2,677	219	129	(2,634)	33
Total comprehensive income for the period after tax	(13,087)	2,720	(151,073)	(1,922)	(16,049)
	NLB Group				
	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10
Net (loss)/profit for the period after tax	(2,002)	4,151	(154,924)	(16,071)	(31,815)
Other comprehensive income after tax	(4,318)	(611)	864	6,082	788
Foreign currency translation	7,671	691	(100)	(2,230)	(684)
Translation gains/(losses) taken to equity	7,671	691	(100)	(2,230)	(684)
Cash flow hedges (effective portion)	(182)	1,702	1,708	532	(291)
Valuation (losses)/gains taken to equity	(942)	915	891	(353)	(1,516)
Transferred to profit	760	787	817	885	1,225
Available for sale financial assets	(13,362)	(1,942)	(1,358)	10,787	2,538
Valuation losses taken to equity	(27,770)	(5,984)	(3,687)	(11,446)	(21,718)
Transferred to profit	14,408	4,042	2,329	22,233	24,256
Share of other comprehensive income of entities accounted for using the equity method	(1,363)	(1,267)	869	288	(1,747)
Income tax relating to components of other comprehensive income	2,918	205	(255)	(3,295)	972
Total comprehensive income for the period after tax	(6,320)	3,540	(154,060)	(9,989)	(31,027)
Attributable to owners of the parent	(7,370)	3,507	(152,133)	(8,873)	(31,076)
Attributable to non-controlling interests	1,050	33	(1,927)	(1,116)	49

Statement of financial position

Notes	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Cash and balances with central banks	208,247	204,429	686,311	764,895
Trading assets	235,461	155,239	236,491	157,691
Financial assets designated at fair value through profit or loss	1,803	23,781	3,439	25,674
Available for sale financial assets	1,733,960	1,985,181	2,120,623	2,433,414
Derivatives - hedge accounting	31,408	35,584	31,408	35,584
Loans and advances to banks	6.1.1. 492,352	570,228	753,755	850,228
Loans and advances to customers	6.1.2. 9,022,659	9,199,809	11,658,389	11,879,659
Held to maturity investments	791,075	759,869	791,117	759,954
Fair value changes of the hedged items in portfolio hedge of interest rate risk	77	301	77	301
Non-current assets and disposal group classified as held for sale	22,768	22,965	88,430	123,908
Pledged assets	211,930	20,593	211,930	20,593
Property and equipment	152,867	157,093	346,700	346,995
Investment property	1,637	1,637	49,960	51,705
Intangible assets	66,790	73,494	137,380	146,489
Investments in subsidiaries	505,016	467,094	-	-
Investments in associates and joint ventures	65,995	65,995	111,949	111,760
Current income tax assets	484	675	4,415	4,112
Deferred income tax assets	44,131	43,841	61,120	60,745
Other assets	63,858	42,411	138,359	114,245
TOTAL ASSETS	13,652,518	13,830,219	17,431,853	17,887,952
Trading liabilities	6.3. 81,955	90,873	82,140	91,789
Financial liabilities designated at fair value through profit or loss	1,740	-	1,740	-
Derivatives - hedge accounting	23,814	28,107	23,814	28,107
Deposits from banks	6.4.a) 189,667	179,396	207,806	227,011
Borrowings from banks	6.4.b) 1,639,539	2,051,757	2,376,697	2,924,873
Due to customers	6.4.a) 7,772,243	7,663,670	10,414,149	10,386,968
Borrowings from other customers	6.4.b) 33,637	14,086	221,290	196,630
Debt securities in issue	1,470,455	1,793,520	1,478,453	1,803,962
Subordinated liabilities	6.5. 840,497	848,413	873,275	901,461
Financial liabilities associated to transferred assets	211,259	20,669	211,259	20,669
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,168	1,134	2,168	1,134
Liabilities of disposal group classified as held for sale	-	-	26,124	43,264
Provisions	6.6. 93,560	71,049	124,378	102,869
Current income tax liabilities	1,024	880	1,517	1,697
Deferred income tax liabilities	-	-	1,611	1,894
Other liabilities	65,079	80,417	106,730	124,001
TOTAL LIABILITIES	12,426,637	12,843,971	16,153,151	16,856,329
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT				
Share capital	92,314	74,328	92,314	74,328
Share premium	727,609	495,595	727,609	495,595
Revaluation reserve	(6,688)	4,925	(14,536)	(9,724)
Profit reserves	413,448	413,448	413,448	413,448
Retained earnings	1,246	-	37,833	39,502
Treasury shares	(2,048)	(2,048)	(2,048)	(2,048)
	1,225,881	986,248	1,254,620	1,011,101
Non-controlling interests	-	-	24,082	20,522
TOTAL EQUITY	1,225,881	986,248	1,278,702	1,031,623
TOTAL LIABILITIES AND EQUITY	13,652,518	13,830,219	17,431,853	17,887,952

Statement of changes in equity

NLB	Share capital	Share premium	Revaluation reserves	Profit reserves	Retained earnings	Treasury shares	Total equity
Balance at January 1, 2011	74,328	495,595	4,925	413,448	-	(2,048)	986,248
- Net gain for the period	-	-	-	-	1,246	-	1,246
- Other comprehensive income	-	-	(11,613)	-	-	-	(11,613)
Total comprehensive income after tax	-	-	(11,613)	-	1,246	-	(10,367)
New share capital subscribed (paid)	17,986	232,014	-	-	-	-	250,000
Balance at June 30, 2011	92,314	727,609	(6,688)	413,448	1,246	(2,048)	1,225,881

NLB	Share capital	Share premium	Revaluation reserves	Profit reserves	Retained earnings	Treasury shares	Total equity
Balance at January 1, 2010	74,328	495,595	5,599	604,148	-	(2,048)	1,177,622
Merger of subsidiary	-	-	-	(7,277)	-	-	(7,277)
- Net loss for the period	-	-	-	-	(20,111)	-	(20,111)
- Other comprehensive income	-	-	(10,991)	-	-	-	(10,991)
Total comprehensive income after tax	-	-	(10,991)	-	(20,111)	-	(31,102)
Balance at June 30, 2010	74,328	495,595	(5,392)	596,871	(20,111)	(2,048)	1,139,243

NLB Group	Share capital	Share premium	Revaluation reserves	Profit reserves	Retained earnings	Treasury shares	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at January 1, 2011	74,328	495,595	(9,724)	413,448	39,502	(2,048)	1,011,101	20,522	1,031,623
- Net gain for the period	-	-	-	-	949	-	949	1,200	2,149
- Other comprehensive income	-	-	(4,812)	-	-	-	(4,812)	(117)	(4,929)
Total comprehensive income after tax	-	-	(4,812)	-	949	-	(3,863)	1,083	(2,780)
New share capital subscribed (paid)	17,986	232,014	-	-	-	-	250,000	-	250,000
Dividends paid	-	-	-	-	-	-	-	(3)	(3)
Other*	-	-	-	-	(2,618)	-	(2,618)	2,480	(138)
Balance at June 30, 2011	92,314	727,609	(14,536)	413,448	37,833	(2,048)	1,254,620	24,082	1,278,702

NLB Group	Share capital	Share premium	Revaluation reserves	Profit reserves	Retained earnings	Treasury shares	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at January 1, 2010	74,328	495,595	(5,898)	604,148	52,302	(2,048)	1,218,427	25,769	1,244,196
- Net loss for the period	-	-	-	-	(34,577)	-	(34,577)	(362)	(34,939)
- Other comprehensive income	-	-	(10,532)	-	-	-	(10,532)	6	(10,526)
Total comprehensive income after tax	-	-	(10,532)	-	(34,577)	-	(45,109)	(356)	(45,465)
Dividends paid	-	-	-	-	-	-	-	(1,320)	(1,320)
Other*	-	-	-	(7,278)	7,156	-	(122)	(78)	(200)
Balance at June 30, 2010	74,328	495,595	(16,430)	596,870	24,881	(2,048)	1,173,196	24,015	1,197,211

*Transactions with non-controlling interests.

Statement of cash flows

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	319,630	319,472	436,809	451,394
Interest paid	(197,758)	(192,363)	(248,223)	(252,567)
Dividends received	4,359	14,077	642	4,904
Fee and commission receipts	70,940	72,326	99,423	98,502
Fee and commission payments	(24,133)	(20,674)	(33,952)	(29,824)
Realized gains from financial assets and financial liabilities not at fair value through profit or loss	789	267	1,456	1,932
Realized losses from financial assets and financial liabilities not at fair value through profit or loss	(5,308)	(1,960)	(5,309)	(1,963)
Gains less losses from financial assets and liabilities held for trading	(3,586)	(11,546)	(1,379)	(6,367)
Payments to employees and suppliers	(110,580)	(113,044)	(170,940)	(178,451)
Other income	6,904	9,382	24,613	20,778
Other expenses	(1,575)	(1,113)	(4,229)	(2,321)
Income tax received/(paid)	677	18,172	(1,529)	17,327
Cash flows from operating activities before changes in operating assets and liabilities	60,359	92,996	97,382	123,344
Decrease in operating assets	173,509	98,719	357,019	44,885
Net increase in trading assets	(92,167)	(107,325)	(90,404)	(108,640)
Net decrease/(increase) in financial assets designated at fair value through profit or loss	20,776	(861)	20,776	(861)
Net decrease in available for sale financial assets	32,157	116,209	123,972	30,149
Net decrease in loans and advances	230,778	99,190	336,233	142,018
Net decrease in non-current assets held for sale	191	-	2,726	1,891
Net increase in other assets	(18,226)	(8,494)	(36,284)	(19,672)
Decrease in operating liabilities	(395,243)	(141,822)	(694,631)	(203,308)
Net decrease in deposits from central banks	-	(100,220)	-	(100,220)
Net decrease in deposits and loans measured at amortized cost	(59,133)	(47,385)	(360,574)	(98,186)
Net (decrease)/increase in securities measured at amortized cost	(338,196)	6,330	(340,752)	4,161
Net increase/(decrease) in other liabilities	2,086	(547)	6,695	(9,063)
Net cash from operating activities	(161,375)	49,893	(240,230)	(35,079)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	56,616	57,173	58,212	61,865
Proceeds from sale of property and equipment and investment property	32	97	1,881	4,789
Proceeds from liquidation of subsidiary	253	-	-	-
Redemption of held to maturity investments	56,331	57,076	56,331	57,076
Payments from investing activities	(125,882)	(95,899)	(131,432)	(96,121)
Purchase of property and equipment and investment property	(6,655)	(5,137)	(11,716)	(12,405)
Purchase of intangible assets	(4,017)	(4,120)	(4,878)	(5,053)
Purchase of subsidiaries net of cash acquired	(372)	(7,979)	-	-
Purchase of held to maturity investments	(114,838)	(78,663)	(114,838)	(78,663)
Net cash used in investing activities	(69,266)	(38,726)	(73,220)	(34,256)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financing activities	250,000	61,557	250,000	66,557
Issue of subordinated debt	-	61,557	-	66,557
Issue of ordinary shares	250,000	-	250,000	-
Payments from financing activities	(37,253)	-	(24,003)	(1,321)
Dividends paid	-	-	(3)	(1,321)
Repayments of subordinated debt	(5,000)	-	(24,000)	-
Increase of subsidiaries' share capital and purchase from non-controlling interests	(32,253)	-	-	-
Net cash from financing activities	212,747	61,557	225,997	65,236
Effects of exchange rate changes on cash and cash equivalents	(2,133)	16,543	9,522	30,177
Net (decrease)/increase in cash and cash equivalents	(17,894)	72,724	(87,453)	(4,099)
Cash and cash equivalents at beginning of period	441,078	953,804	1,447,245	1,948,916
Cash and cash equivalents at end of period	421,051	1,043,071	1,369,314	1,974,994

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board hereby confirms its responsibility for the preparation of the financial statements of the Bank and the consolidated financial statements of the Group for the period ended June 30, 2011 and for the accompanying accounting policies and notes to the accounting policies.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and Banking Act so as to give a true and fair view of the financial position of the Bank and Group as at June 30, 2011 and their financial results and cash flows for the period then ended.

The Management Board also confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were prepared according to the principles of prudence and good management. The Management Board further confirms that the financial statements of the Bank and Group, together with the notes, have been prepared on a going-concern basis for the Bank and Group and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

The Management Board is also responsible for appropriate accounting practices, for the adoption of appropriate measures for the safeguarding of assets, and for the prevention and identification of fraud and other irregularities or illegal acts.

The tax authorities may audit the operations of Group companies at any time up to 3 or 6 years from the day of the tax statement, which could result in an additional tax liability, default interest and fines for corporate income tax or for other taxes or levies. The Management Board is not aware of any circumstances that could give rise to a potential material liability in this respect.

Management Board



Guy Snoeks
Member of the
Management Board



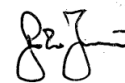
Robert Kleindienst
Member of the
Management Board



Marko Jazbec
Member of the
Management Board



David Benedek
Member of the
Management Board



Božo Jašovič
Member of the
Management Board
&CEO

Notes to the financial statements

1. GENERAL INFORMATION

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB or the Bank) is a joint stock entity providing universal banking services. The NLB Group (hereinafter: the Group) operates in more than twelve countries.

The Bank is incorporated and domiciled in Slovenia. The address of its registered office is Trg Republike 2, Ljubljana. The Bank's shares are not listed on the stock exchange.

The Bank's largest shareholders as at June 30, 2011 are the Republic of Slovenia, owning 45.62% of shares (December 31, 2010: 33.10%), and KBC Bank N.V. Brussels (hereinafter: KBC), owning 25.00% of shares (December 31, 2010: 30.57%). By increasing the share capital Republic of Slovenia and its related companies exceeded 50% ownership in NLB.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of euros unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

Financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, effective on or after January 1, 2011 in addition to the requirements of local legislation. Interim financial statements include in accordance with International Accounting Standard 34 – Interim Financial Reporting, condensed financial statements and selected explanatory notes. The financial statements included in this interim report should be read in conjunction with the financial statements in the Audited Financial Statements for the NLB Group for period ended December 31, 2010.

2.2. Accounting policies

The accounting policies in interim report are the same as in the financial statements for the year 2010.

Accounting standards and amendments to existing standards effective on or after January 1, 2011:

- IAS 32 (amendment) - Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010).
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010).
- IFRIC 14 (amendment) - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011).
- IFRS 1 (amendment) - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010).
- Annual improvements to IFRS 2010. The improvements consist of a mixture of substantive changes and clarifications and are effective for annual periods beginning on or after January 1, 2011, with earlier application permitted.

Accounting standards and amendments to existing standards issued but not endorsed by EU:

- IFRS 9 - Financial Instruments IFRS 9 (IASB proposed delaying of effective date from 1 January 2013 to 1 January 2015) issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities.
- IFRS 7 (amendment) - Disclosures, Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011).
- IAS 12 (amendment) – Deferred Tax: Recovery of Underlying assets (effective for annual periods beginning on or after January 1, 2012).
- IFRS 1 (amendment) - First time adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011).
- IFRS 10 (new standard) - Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013). New standard contains guidance for the preparation of the consolidated financial statements. IFRS 10 changes the definition of the control. The control comprises power over investee, exposure or rights to variable returns and ability to use power to affect the reporting entity's returns.
- IFRS 11 (new standard) - Joint Arrangements (effective for annual periods beginning on or after January 1, 2013). Standard replaces IAS 31. Standard defines joint operations that are consolidated using the proportionate consolidation approach and joint ventures, where interests are consolidated using the equity method. The type of joint arrangements depends on the nature of the rights and obligations arising from the arrangement.
- IFRS 12 (new standard) – Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1, 2013). Standard provides disclosure requirements for investments in subsidiaries, associates and joint ventures, consolidated in accordance with IFRS 10 and IFRS 11 and interests in unconsolidated structured entities that the parent entity does not control but is exposed to its risks and benefits.
- IFRS 13 (new standard) – Fair Value Measurements (effective for annual periods beginning on or after January 1, 2013). Standard defines fair value, provides guidance on its determination especially when the market for an asset or liability becomes less active and introduces consistent requirement for disclosures on fair value measurements.
- IAS 19 (revised standard) - Employee Benefits (effective for annual periods beginning on or after January 1, 2013). Standard changes the requirements for recognition of gains and losses from defined benefit plans and sets out disclosure requirements for employee benefits.
- IAS 1 (amendment) – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012). The revised standard requires to group together within other comprehensive income items that may be reclassified to profit or loss in subsequent periods separately from items that may not be. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements.

3. CHANGES IN SUBSIDIARY HOLDINGS IN FIRST HALF YEAR 2011

Capital increase:

- The increase of share capital was registered in NLB Srbija, Beograd, Optima Leasing, Zagreb, NLB Factoring Ostrava, NLB Leasing, Sarajevo, NLB Nov penziski fond, Skopje and LHB Trade, Zagreb.

Other changes:

- NLB Leasing, Ljubljana sold its 100% ownership interest in NLB Leasing, Sarajevo to NLB.
- NLB Interfinanz, Zurich sold its 26.72% ownership interest in NLB Tutunska Bank, Skopje to NLB.
- NLB Nova Penzija, Beograd was liquidated.

4. EVENTS AFTER REPORTING DATE

The Bank has in connection with the decision of the European Commission, which has approved state aid for NLB d.d., and based on the terms and conditions of bond, issued by NLB d.d. in the amount of Euro 130 million on July 15, 2005 (ISIN code: XS0224488543), exercised its right to suspend the payment of interest, which would otherwise fall due on July 15, 2011 in respect of such notes.

The Bank hired long-term syndicated loan in amount of Euro 350 million. Acquired additional sources will finance the business activities of the bank.

In July 2011 the sale of NLB Banka ad Sofia was completed.

5. NOTES TO THE INCOME STATEMENT

5.1. Interest income and expenses

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Interest and similar income				
Loans and advances to customers	237,596	226,693	367,699	365,800
Derivatives - hedge accounting	44,500	45,100	44,500	45,100
Financial assets held for trading	26,832	23,196	26,632	22,632
Available for sale financial assets	17,908	17,917	24,938	25,283
Held to maturity investments	14,013	11,381	14,016	11,386
Loans and advances to banks	7,281	9,167	7,325	9,619
Deposits with central banks	874	867	2,484	2,095
Other assets	838	56	961	56
TOTAL	349,842	334,377	488,555	481,971
	=====	=====	=====	=====
Interest and similar expenses				
Due to customers	72,291	69,274	115,073	112,165
Derivatives - hedge accounting	42,961	37,912	42,961	37,912
Debt securities in issue	35,794	36,041	35,981	36,284
Financial liabilities held for trading	22,875	20,380	22,952	20,485
Borrowings from banks	20,187	19,525	32,491	32,006
Subordinated liabilities	11,928	8,769	13,148	9,916
Deposits from banks	722	619	1,891	2,477
Borrowings from other customers	342	57	3,323	2,184
Other liabilities	477	1,120	535	1,141
TOTAL	207,577	193,697	268,355	254,570
	=====	=====	=====	=====
NET INTEREST	142,265	140,680	220,200	227,401
	=====	=====	=====	=====

5.2. Net fee and commission income

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Fee and commission income				
Credit cards and ATMs	21,877	22,907	27,114	26,530
Payments	18,173	19,341	31,805	33,454
Transaction accounts	17,436	16,047	19,663	17,280
Guarantees	8,005	8,486	10,272	10,473
Investment banking	2,614	2,288	2,263	2,839
Banking insurance	767	635	767	635
Investment funds	620	693	4,582	4,641
Other services	1,442	1,577	2,683	2,702
TOTAL	70,934	71,974	99,149	98,554
	=====	=====	=====	=====
Fee and commission expenses				
Credit cards and ATMs	10,302	10,904	13,650	13,640
Payments	1,051	360	3,141	2,339
Investment banking	744	634	816	699
Guarantees	-	-	115	165
Other services	840	538	4,697	3,628
TOTAL	12,937	12,436	22,419	20,471
	=====	=====	=====	=====
NET FEE AND COMMISSION INCOME	57,997	59,538	76,730	78,083
	=====	=====	=====	=====

5.3. Gains less losses from financial assets and liabilities held for trading

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Foreign exchange trading	2,086	1,835	5,990	6,720
Debt instruments	(46)	(953)	(32)	(912)
Equity instruments	(3,707)	(2,581)	(3,718)	(2,588)
Derivatives	(4,846)	(32,167)	(5,765)	(31,765)
TOTAL	(6,513)	(33,866)	(3,525)	(28,545)
	=====	=====	=====	=====

5.4. Other operating income

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Income from non-banking services	6,045	6,761	13,088	14,594
Rental income from investment property	50	48	1,769	744
Other operating income	1,201	1,339	4,451	5,782
TOTAL	7,296	8,148	19,308	21,120

5.5. Other operating expenses

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Membership fees	764	690	1,445	1,146
Taxes and other compulsory public revenues	15	24	1,410	770
Other operating expenses	572	283	1,199	836
TOTAL	1,351	997	4,054	2,752

5.6. Administrative expenses

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Employee costs	67,684	67,866	103,522	103,197
Other general and administrative expenses	38,331	39,574	61,065	63,101
TOTAL	106,015	107,440	164,587	166,298

5.7. Impairment charge

	NLB		NLB Group	
	H1/11	H1/10	H1/11	H1/10
Impairment of financial assets				
Available for sale financial assets	19,896	17,254	19,896	22,483
Loans and advances to banks (note 6.1.3.)	(117)	(690)	(1,398)	600
Loans and advances to customers (note 6.1.3.)	41,183	75,815	75,586	131,428
Other financial assets	6,194	1,459	8,541	4,785
Other	-	-	281	255
TOTAL	67,156	93,838	102,906	159,551

In the first half year of 2011 "Loans and advances to customers" includes impairment of loans of the subsidiary classified as disposal group held for sale in amount of Euro 2,032 thousand.

6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1. Loans and advances

6.1.1. Loans and advances to banks

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Loans	220,330	249,103	187,160	210,243
Demand deposits	161,477	86,331	172,598	160,596
Time deposits	106,403	228,412	404,700	488,709
Securities purchased under agreements to resell	6,239	9,269	6,239	9,269
Called guarantees	92	92	111	105
Finance lease receivables	-	-	40	73
	<u>494,541</u>	<u>573,207</u>	<u>770,848</u>	<u>868,995</u>
Allowance for impairment (note 6.1.3.)	(2,189)	(2,979)	(17,093)	(18,767)
TOTAL	<u>492,352</u>	<u>570,228</u>	<u>753,755</u>	<u>850,228</u>

6.1.2. Loans and advances to customers

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Loans	9,436,650	9,590,767	11,833,983	11,931,540
Finance lease receivables	-	-	552,341	568,452
Overdrafts	248,080	264,143	336,432	406,032
Called guarantees	60,374	16,305	70,988	24,753
Credit card business	57,244	64,572	108,000	114,229
Reverse sale and repurchase agreement	2,627	9,387	2,627	9,387
	<u>9,804,975</u>	<u>9,945,174</u>	<u>12,904,371</u>	<u>13,054,393</u>
Allowance for impairment (note 6.1.3.)	(782,316)	(745,365)	(1,245,982)	(1,174,734)
TOTAL	<u>9,022,659</u>	<u>9,199,809</u>	<u>11,658,389</u>	<u>11,879,659</u>

6.1.3. Movements in allowance for impairment of loans and advances to banks and customers

	NLB				NLB Group			
	Banks		Customers		Banks		Customers	
	2011	2010	2011	2010	2011	2010	2011	2010
Balance at January 1	2,979	4,821	745,365	495,107	18,767	26,606	1,174,734	879,452
Exchange difference on opening balance	-	-	-	-	397	2,026	5,459	2,426
Merger of subsidiary	-	-	-	9,025	-	-	-	-
Impairment (note 5.7.)	(117)	(690)	41,183	75,815	(1,398)	600	73,554	131,428
Write offs	(673)	-	(4,232)	(6,159)	(673)	(142)	(7,765)	(24,906)
Balance at June 30	<u>2,189</u>	<u>4,131</u>	<u>782,316</u>	<u>573,788</u>	<u>17,093</u>	<u>29,090</u>	<u>1,245,982</u>	<u>988,400</u>

6.2. Fair value hierarchy of financial instruments

IFRS 7 specifies a fair value hierarchy with a respect to the inputs and assumptions used to measure financial instruments at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumption of the Bank and the Group. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equity securities, debt instruments, financial derivatives and points of investment funds.
- Level 2 – Inputs other than the quoted prices included in Level 1 that are observable for an instrument, either directly (i.e. prices) or indirectly (i.e. derived from prices). The source of input parameters, such as yield curves and counterparty credit ratings, is Reuters.
- Level 3 – Inputs for an instrument that are not based on observable market data. This level includes non-tradable shares and bonds and derivatives associated with these investments.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Transfer of financial instruments between levels of valuation

30.6.2011

	NLB and NLB Group					
	Level 1		Level 2		Level 3	
Financial assets	from	to	from	to	from	to
Financial instruments held for trading						
- debt instruments	779	-	-	796	-	-
Financial assets available for sale						
- debt instruments	31,931	6,112	6,008	32,782	-	-

According to the fair value hierarchy, the Group reclassified financial assets from Level 1 to Level 2, due to a significant lower turnover with these securities on active markets. Instead of unadjusted market prices, fair value of these securities is measured according to the swap curves. For financial assets, reclassified from Level 2 to Level 1 market prices were published in first half of 2011. The amounts reclassified present carrying values as at December 31, 2010 (“from”) and June 30, 2011 (“to”).

31.12.2010	NLB					
	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Financial assets						
Financial instruments held for trading						
- debt instruments	(5,916)	-	-	7,131	-	-
- equity instruments	-	15	-	-	(40)	-
Financial assets available for sale						
- debt instruments	(174,412)	-	-	195,781	-	-

31.12.2010	NLB Group					
	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Financial assets						
Financial instruments held for trading						
- debt instruments	(5,916)	-	-	7,131	-	-
- equity instruments	-	15	-	-	(40)	-
Financial assets available for sale						
- debt instruments	(174,412)	-	-	195,781	-	-
- equity instruments	-	-	-	80	(80)	-

The amounts reclassified present carrying values as at December 31, 2009 ("from") and December 31, 2010 ("to").

6.3. Trading liabilities

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Derivatives, excluding hedges				
Swap contracts	67,726	75,093	67,877	76,004
Options	12,763	15,026	12,763	15,026
Forward contracts	1,466	754	1,500	759
TOTAL	81,955	90,873	82,140	91,789
	=====	=====	=====	=====

6.4. Deposits, borrowings and debt securities in issue

a) Deposits from banks and amounts due to customers

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Deposits on demand				
- banks	117,575	93,141	106,906	96,382
- other customers	3,271,465	3,236,063	4,191,032	4,183,341
Other deposits				
- banks	72,092	86,255	100,900	130,629
- other customers	4,500,778	4,427,607	6,223,117	6,203,627
TOTAL	7,961,910	7,843,066	10,621,955	10,613,979

b) Borrowings from banks and other customers

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Loans				
- banks	1,639,539	2,051,757	2,376,697	2,924,873
- other customers	33,637	14,086	221,290	196,630
TOTAL	1,673,176	2,065,843	2,597,987	3,121,503

c) Debt securities in issue

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Carrying amount of issued securities				
- traded on active markets	1,470,455	1,793,520	1,468,474	1,791,329
- not traded on active markets	-	-	9,979	12,633
TOTAL	1,470,455	1,793,520	1,478,453	1,803,962
in %				
Bonds				
- fixed rated	92.78	94.09	92.15	93.56
- floating rated	7.22	5.91	7.85	6.44
	100.00	100.00	100.00	100.00

The Bank performed early redemption of the bond in nominal value of Euro 296 million. Effects are shown in income statement in position gains less losses from financial assets and liabilities not classified as at fair value through profit or loss.

6.5. Subordinated liabilities

	Currency	Due date	Interest rate	NLB				NLB Group			
				30.6.2011		31.12.2010		30.6.2011		31.12.2010	
				Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans											
	EUR	30.12.2014	6 months EURIBOR + 5.1% p.a. to 22.03.2014, thereafter 6 months EURIBOR + 8.5% p.a.	-	-	-	-	4,583	4,500	4,579	4,500
	EUR	14.6.2016	EURIBOR + 0.45% p.a. to 14.6.2011, thereafter EURIBOR + 1.1% p.a.	75,084	75,000	75,048	75,000	75,084	75,000	75,048	75,000
	EUR	2.6.2017	3 months EURIBOR + 0.48% p.a. to 27.6.2012, thereafter 3 months EURIBOR + 1.98% p.a.	189,927	190,000	189,840	190,000	189,927	190,000	189,840	190,000
	EUR	30.6.2018	6 months EURIBOR + 4.2% p.a. to 22.09.2013, thereafter 6 months EURIBOR + 6.3% p.a.	-	-	-	-	12,121	12,000	12,284	12,000
	EUR	30.6.2020	6 months EURIBOR + 5.7% p.a. for first 5 years, thereafter 6 months EURIBOR + 7.7% p.a.	-	-	-	-	4,957	5,000	4,954	5,000
	EUR	-	3 months EURIBOR + 1.5% p.a. to 7.9.2011, thereafter 3 months EURIBOR + 2.25% p.a.	100,204	100,000	100,182	100,000	100,204	100,000	100,182	100,000
	EUR	-	3 months EURIBOR + 0.95% p.a. to 24.7.2012, thereafter 3 months EURIBOR + 1.7% p.a.	119,984	120,000	119,872	120,000	119,984	120,000	119,872	120,000
Subordinated securities											
	EUR	10.2.2011	4.5%	-	-	5,200	5,000	-	-	5,200	5,000
	EUR	24.3.2011	EURIBOR + 1.85% p.a.	-	-	-	-	-	-	20,147	19,000
	EUR	10.4.2012	EURIBOR + 1.5% p.a.	-	-	-	-	11,117	10,450	11,084	10,450
	EUR	25.2.2013	6 months EURIBOR + 1.4% p.a.	12,620	12,500	12,613	12,500	12,620	12,500	12,613	12,500
	EUR	9.6.2013	7.0%	48,998	48,963	50,667	48,963	48,998	48,963	50,667	48,963
	EUR	24.5.2017	6.25%	61,121	61,419	63,183	61,419	61,121	61,419	63,183	61,419
	EUR	-	3 months EURIBOR + 1.6% p.a. to 17.12.2014, thereafter 3 months EURIBOR + 3.1% p.a.	100,827	100,000	100,109	100,000	100,827	100,000	100,109	100,000
	EUR	-	6 months EURIBOR + 1.68% p.a. to 15.7.2015, thereafter 6 months EURIBOR + 2.68% p.a.	131,732	130,000	131,699	130,000	131,732	130,000	131,699	130,000
TOTAL				840,497	837,882	848,413	842,882	873,275	869,832	901,461	893,832

6.6. Provisions

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Provisions for guarantees and commitments (note 6.10.)	69,579	45,895	79,666	56,997
Employee benefit provisions	13,562	14,124	31,924	32,532
Restructuring provisions	5,363	6,000	5,363	6,000
Provisions for premiums from National Saving Scheme	2,019	1,967	2,019	1,967
Other provisions	3,037	3,063	5,406	5,373
TOTAL	93,560	71,049	124,378	102,869

6.7. Tax effects relating to each component of other comprehensive income

	NLB					
	30.6.2011			30.6.2010		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Available for sale financial assets	(16,029)	3,200	(12,829)	(12,928)	2,527	(10,401)
Cash flow hedge	1,520	(304)	1,216	(737)	147	(590)
TOTAL	(14,509)	2,896	(11,613)	(13,665)	2,674	(10,991)
	=====	=====	=====	=====	=====	=====

	NLB Group					
	30.6.2011			30.6.2010		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Available for sale financial assets	(15,304)	2,920	(12,384)	(8,876)	2,667	(6,209)
Cash flow hedge	1,520	(304)	1,216	(737)	147	(590)
Exchange differences on translating foreign operations	8,362	-	8,362	(2,573)	-	(2,573)
Share of associates and joint venture	(2,630)	507	(2,123)	(1,444)	290	(1,154)
TOTAL	(8,052)	3,123	(4,929)	(13,630)	3,104	(10,526)
	=====	=====	=====	=====	=====	=====

6.8. Share capital

a) Ownership structure

The most important change in 2011 was the increase of subscribed capital with the issue of new ordinary shares. The Bank increased its subscribed capital by Euro 17,986 thousand by issuing 2,155,173 new shares, which represent a 24.20% increase in subscribed capital. Prior to the issue of new shares, subscribed capital amounted to Euro 74,328 thousand and was divided into 8,905,952 shares. Increased subscribed capital amounts to Euro 92,314 thousand and is divided into 11,061,125 shares. The increase was entered into the Court Register on April 28, 2011.

As at June 30, 2011 there were 1,997 shareholders. The Bank's shareholders include 276 legal entities, 1,699 individuals and 22 non – residents. All shares are registered at the Central Securities Clearing Corporation. All shares are ordinary, nominated and of the same class.

b) Book value per share

Book value of the Bank's share as at June 30, 2011 was Euro 111.18 and on consolidated level it was Euro 113.79. It is calculated as relation between equity book value and the number of shares without treasury shares.

c) Treasury shares

As at June 30, 2011 the Bank has 34,924 treasury shares for which it has set aside reserves in the amount of Euro 2,048 thousand.

6.9. Capital ratios

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
REGULATORY CAPITAL	1,330,905	1,147,331	1,829,802	1,595,342
TIER I CAPITAL	1,288,338	1,031,203	1,262,061	994,904
Paid up share capital	92,314	74,328	92,314	74,328
Treasury shares	(4,635)	(4,635)	(4,635)	(4,635)
Capital reserves (share premium)	727,609	495,595	727,609	495,595
Reserves and retained profit or loss	412,971	412,971	440,839	430,525
Non-controlling interest	-	-	22,722	20,299
Revaluation reserves - prudential filters	(1,262)	(532)	(3,184)	(1,687)
Hybrid instruments in Tier I	129,999	129,999	129,999	129,999
Other deductions	(68,658)	(76,523)	(143,603)	(149,520)
<i>Intangible assets</i>	<i>(66,790)</i>	<i>(73,494)</i>	<i>(137,377)</i>	<i>(146,491)</i>
<i>Other</i>	<i>(1,868)</i>	<i>(3,029)</i>	<i>(6,226)</i>	<i>(3,029)</i>
TIER II CAPITAL	647,473	678,752	669,194	704,543
DEDUCTION FROM TIER I AND TIER II CAPITAL (equity investments in banks and financial institutions)	(604,906)	(562,624)	(101,453)	(104,105)
CAPITAL REQUIREMENTS	879,451	921,513	1,208,720	1,250,658
Total capital requirements for credit risk (standardised approach)	798,410	825,539	1,077,664	1,101,382
Total capital requirements for market risks	22,275	35,538	32,749	48,243
Capital requirements for operating risk	58,766	60,436	98,307	101,033
CAPITAL ADEQUACY RATIO (in %)	12.11	9.96	12.11	10.20

* 30.6.2011 figures are estimation on a basis of last available data.

In the first half of the year 2011, NLB d.d. issued additional share capital in the amount of Euro 250 million.

6.10. Off-balance sheet liabilities

	NLB		NLB Group	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Commitments to extend credit	1,093,995	1,228,500	1,248,090	1,389,448
Financial guarantees	1,047,224	1,325,597	707,860	875,517
Performance guarantees	647,088	555,065	712,277	606,953
Guaranteed and accepted bills	45,579	55,419	50,767	58,917
Letters of credit	4,137	5,014	20,025	29,114
Other	70,290	26,073	71,405	26,637
	<u>2,908,313</u>	<u>3,195,668</u>	<u>2,810,424</u>	<u>2,986,586</u>
Provisions	(69,579)	(45,895)	(79,666)	(56,997)
TOTAL	<u>2,838,734</u>	<u>3,149,773</u>	<u>2,730,758</u>	<u>2,929,589</u>

7. OTHER DISCLOSURES

7.1. Related-party transactions

The volumes of related party transactions and the outstanding balances are as follows:

	NLB					
	Management Board and Key Management personnel		Shareholders*		Supervisory Board	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Loans and deposits issued	1,613	2,800	25,645	150,251	102	129
Loans and deposits received	4,787	5,795	879,776	771,637	1,124	1,443
Debt instruments	24	82	5,001	19,583	53	54
Guarantees issued, commitments to extended credit and derivative financial instruments	487	520	420,820	501,735	23	23
	H1/11	H1/10	H1/11	H1/10	H1/11	H1/10
Interest income	45	47	482	1,280	1	2
Interest expenses	(73)	(90)	(14,089)	(14,771)	(21)	(12)
Fee income	7	9	5	44	-	-
	NLB Group					
	Management Board and Key Management personnel		Shareholders*		Supervisory Board	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Loans and deposits issued	7,382	7,640	39,088	155,724	102	129
Loans and deposits received	9,497	10,628	883,352	771,637	1,124	1,443
Debt instruments	24	82	5,001	19,583	53	54
Guarantees issued, commitments to extended credit and derivative financial instruments	652	677	420,820	501,735	23	23
	H1/11	H1/10	H1/11	H1/10	H1/11	H1/10
Interest income	153	130	731	1,415	1	2
Interest expenses	(164)	(206)	(14,132)	(14,771)	(21)	(12)
Fee income	12	14	5	45	-	-

* Shareholders with more than 5% of ownership.

	NLB					
	Subsidiaries		Associates		Joint ventures	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Loans and deposits issued	1,049,254	1,076,229	37,137	31,305	34,186	40,559
Loans and deposits received	80,207	77,210	14,606	10,364	10,929	958
Securities issued	-	-	18,698	28,695	298	311
Guarantees issued, commitments to extended credit and derivative financial instruments	623,565	761,971	1,407	1,524	23,023	16,675
	H1/11	H1/10	H1/11	H1/10	H1/11	H1/10
Interest income	19,376	19,586	491	477	1,014	709
Interest expenses	(468)	(349)	(698)	(441)	(154)	(6)
Fee income	2,032	2,424	124	154	879	701
Fee expenses	(146)	(132)	(5,127)	(233)	-	-

	NLB Group			
	Associates		Joint ventures	
	30.6.2011	31.12.2010	30.6.2011	31.12.2010
Loans and deposits issued	57,083	56,552	146,236	152,743
Loans and deposits received	24,249	20,852	12,864	3,512
Securities issued	18,698	28,695	298	311
Guarantees issued, commitments to extended credit and derivative financial instruments	1,407	1,524	38,523	28,925
	H1/11	H1/10	H1/11	H1/10
Interest income	844	582	4,876	4,505
Interest expenses	(936)	(772)	(170)	(17)
Fee income	124	208	940	701
Fee expenses	(5,127)	(233)	-	-

7.2. Analysis by segment

a) Segments

H1/11

NLB Group	Banking Slovenia	Banking abroad	Leasing	Factoring and forfeiting	Asset management	Other activities	Total
Total net revenues	210,139	87,744	12,443	7,717	2,099	7,205	327,347
Net revenues from external customers	188,439	93,081	20,856	12,142	2,856	4,766	322,140
Intersegment net revenues	21,700	(5,337)	(8,413)	(4,425)	(757)	2,439	5,207
Net interest revenues	142,265	65,260	5,481	7,826	(9)	(623)	220,200
Net interest revenues from external customers	123,297	70,344	15,001	11,773	10	(225)	220,200
Intersegment net interest revenues	18,968	(5,084)	(9,520)	(3,947)	(19)	(398)	-
Administrative expenses	(104,104)	(44,523)	(6,676)	(3,808)	(1,381)	(4,095)	(164,587)
Depreciation and amortization	(15,914)	(7,739)	(3,846)	(93)	(45)	(486)	(28,123)
Reportable segment profit before impairment charge	89,048	31,510	3,157	2,471	751	2,493	129,430
Share of profits of associates and joint ventures	1,131	340	-	417	-	1,271	3,159
Impairment and provisions charge	(89,409)	(26,022)	(7,481)	(2,684)	-	(10)	(125,606)
(Loss)/Profit for the year	(4,419)	6,868	(4,448)	95	601	3,452	2,149
Reportable segment assets	12,017,524	3,946,633	777,764	513,422	3,028	61,533	17,319,904
Investments in associates and joint ventures	78,342	10,862	-	3,608	-	19,137	111,949
Reportable segment liabilities	12,338,836	3,287,924	244,198	259,954	252	21,987	16,153,151

H1/10

NLB Group	Banking Slovenia	Banking abroad	Leasing	Factoring and forfeiting	Asset management	Other activities	Total
Total net revenues	205,745	97,090	11,611	10,918	2,013	2,708	330,085
Net revenues from external customers	170,139	102,650	23,631	15,049	2,847	(93)	314,223
Intersegment net revenues	35,606	(5,560)	(12,020)	(4,131)	(834)	2,801	15,862
Net interest revenues	140,200	67,548	8,702	11,766	9	(824)	227,401
Net interest revenues from external customers	120,320	73,723	17,592	15,871	20	(125)	227,401
Intersegment net interest revenues	19,880	(6,175)	(8,890)	(4,105)	(11)	(699)	-
Administrative expenses	(105,207)	(45,197)	(9,436)	(3,695)	(1,256)	(4,669)	(169,460)
Depreciation and amortization	(16,120)	(7,918)	(3,977)	(116)	(50)	(668)	(28,849)
Reportable segment profit before impairment charge	69,511	39,099	5,472	6,942	804	(2,752)	119,076
Share of profits of associates and joint ventures	2,977	762	-	(347)	-	1,317	4,709
Impairment of assets	(108,129)	(35,181)	(16,074)	(4,977)	-	(17)	(164,378)
Profit/(Loss) for the year	(28,119)	3,323	(10,460)	1,189	643	(1,515)	(34,939)
Reportable segment assets	12,209,854	4,110,676	816,386	566,333	2,804	70,139	17,776,192
Investments in associates and joint ventures	79,924	11,059	-	3,075	-	17,702	111,760
Reportable segment liabilities	12,756,698	3,422,402	290,594	364,130	493	22,012	16,856,329

*(All amounts in EUR thousand unless otherwise stated)***b) Geographical information**

NLB Group	Net revenues		Total assets	
	H1/11	H1/10	30.6.2011	31.12.2010
Slovenia	204,250	163,490	12,596,773	12,805,403
South East Europe*	98,495	125,955	3,703,646	3,849,198
Western Europe**	19,395	24,778	1,131,434	1,233,351
TOTAL	322,140	314,223	17,431,853	17,887,952
	=====	=====	=====	=====

* Macedonia, Serbia, Montenegro, Croatia, Bosnia and Herzegovina, Bulgaria, Kosovo

** Germany, Switzerland, Austria, Czech Republic, Slovak Republic

Geographical analysis includes a breakdown by geographical segments with respect to the country in which individual Group entities are located

7.3. Subsidiaries

The Group's subsidiaries as at June 30, 2011 are:

	Nature of Business	Country of Incorporation	Equity as at June 30, 2011	Bank's shareholding %*	Group's shareholding %*
LHB Internationale Handelsbank AG, Frankfurt/Main	Banking	Republic of Germany	61,195	100	100
LHB Immobilien GmbH, Frankfurt/Main	Property	Republic of Germany	2,046	-	100
LHB Trade d.o.o., Zagreb	Trading	Republic of Croatia	403	-	100
NLB Tutunska Banka a.d., Skopje	Banking	Republic of Macedonia	75,067	86.98	86.98
NLB Tutunska broker a.d., Skopje	Finance	Republic of Macedonia	3,631	-	100
NLB Montenegrobanka a.d., Podgorica	Banking	Republic of Montenegro	38,831	89.95	89.95
NLB banka a.d., Beograd	Banking	Republic of Serbia	78,920	99.98	99.98
Conet a.d., Novi Sad	Trade	Republic of Serbia	484	-	94.85
Convst a.d., Novi Sad	Finance	Republic of Serbia	410	-	100
NLB Tuzlanska banka d.d., Tuzla	Banking	Republic of Bosnia and Herzegovina	33,324	96.30	96.30
NLB Razvojna banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	46,848	99.85	99.85
NLB Prishtina sh.a., Priština	Banking	Republic of Kosovo	34,830	81.21	81.21
NLB Banka Sofia a.d., Sofija	Banking	Republic of Bulgaria	10,467	97.01	97.01
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	21,359	100	100
NLB Leasing Sofija E.o.o.d., Sofija	Finance	Republic of Bulgaria	(4,462)	-	100
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	(4,813)	-	99.15
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	363	-	100
NLB Leasing Maribor d.o.o., Maribor	Finance	Republic of Slovenia	785	100	100
NLB Leasing Koper d.o.o., Koper	Finance	Republic of Slovenia	4,765	100	100
OL Nekretnine d.o.o., Zagreb	Property	Republic of Croatia	(11,074)	-	75.1
NLB Leasing d.o.o., Beograd	Finance	Republic of Serbia	3,743	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	157	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	5,067	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	38,472	100	100
NLB InterFinanz Praha s.r.o., Praga	Finance	Czech Republic	63	-	100
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	69	-	100
NLB Factoring a.s., Ostrava	Finance	Czech Republic	1,822	100	100
NLB Factor a.s., Bratislava	Finance	Slovak Republic	140	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	3,936	100	100
Plan a.d., Banja Luka	Architecture services	Republic of Bosnia and Herzegovina	690	39.14	88.14
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	2,606	51	100
FIN-DO d.o.o., Domžale	Property	Republic of Slovenia	57	100	100
NLB Propria d.o.o., Ljubljana	Property	Republic of Slovenia	11,052	100	100
NLB Srbija d.o.o., Beograd	Property	Republic of Serbia	5,533	100	100
CBS Invest d.o.o., Sarajevo	Property	Republic of Bosnia and Herzegovina	(227)	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	590	100	100

The financial data derives from financial statements, prepared pursuant to the local standards.