

A close-up photograph of a green leaf with numerous water droplets of various sizes. The leaf's surface is highly textured, and the droplets are in sharp focus, reflecting light. A dark blue banner is positioned at the top right of the image.

Annual Report 2011

Key financial data

	2011		2010		2009	
	NLB	NLB Group	NLB	NLB Group	NLB	NLB Group
Income statement indicators (in million EUR)						
Net interest income	269	417	267	436	249	423
Net non-interest income	159	219	152	203	177	218
Total costs	239	380	248	393	253	418
Provisions and impairments	467	520	377	477	196	315
Result before tax	-278	-267	-206	-227	-23	-86
Minority interest	-	-1	-	-4	-	1
Result after tax	-233	-239	-183	-202	-24	-87
Financial position statement indicators (in million EUR)						
Total assets	12,980	16,445	13,830	17,888	15,509	19,606
Loans to non-banking sector (net)	8,462	10,749	9,200	11,880	9,457	12,333
Deposits from non-banking sector	7,562	10,196	7,664	10,387	8,191	10,741
Equity	957	976	986	1,011	1,178	1,218
Impairments of financial assets and provisions	-1,053	-1,565	-745	-1,175	-495	-879
Minority interest	-	22	-	21	-	26
Total off-balance sheet items	7,296	7,373	9,191	9,009	9,411	9,209
Key financial indicators						
a) Capital						
- capital adequacy	10.1 %	11.1 %	10.0 %	10.2 %	10.4%	10.7%
- Tier 1	7.6 %	7.2 %	6.5 %	6.0 %	7.5%	6.9%
- core Tier 1	6.3 %	6.3 %	5.4 %	5.2 %	6.5%	6.1%
b) Asset quality						
- coverage ratio of loans (impairments for loans / total loans)	10.6%	12.3%	7.2%	8.8%	4.5%	6.2%
- non-performing loans (NPL) / total loans	17.9%	21.3%	10.1%	14.5%	4.5%	9.0%
c) Profitability						
- interest margin*	2.0 %	2.4 %	1.8 %	2.3 %	1.7%	2.4%
- financial intermediation margin	3.2 %	3.7 %	2.9 %	3.4 %	3.1%	3.3%
- return on equity before tax (ROE b.t.)	-26.4 %	-24.2 %	-18.4 %	-19.3 %	-1.9%	-6.6%
- return on assets before tax (ROA b.t.)	-2.0 %	-1.5 %	-1.4 %	-1.2 %	-0.2%	-0.4%
- return on equity after tax (ROE a.t.)	-22.2 %	-22.2 %	-16.4 %	-17.5 %	-1.9%	-6.8%
- return on assets after tax (ROA a.t.)	-1.7 %	-1.4 %	-1.2 %	-1.1 %	-0.2%	-0.5%
d) Business costs						
- operating costs / average total assets	1.7 %	2.2 %	1.7 %	2.1 %	1.7%	2.2%
- costs / net income (CIR)	55.8 %	59.7%	59.3 %	61.5%	59.4%	65.2%
e) Liquidity						
- liquidity assets / short-term financial liabilities to non-banking sector	59.8%	59.0%	61.4%	60.5%	54.7%	46.1%
- liquidity assets / average total assets	28.9%	30.1%	27.7%	29.3%	26.5%	23.1%
f) Other						
- market share in terms of total assets	26.6 %	-	27.5 %	-	30.0%	-
- loans of non-banking sector / deposits from non-banking sector (LTD)	111.9%	105.4%	120.0%	114.4%	115.4%	114.8%
Key indicators per share						
Shareholders	1,999	-	2,002	-	1,998	-
Shares	11,061,125	-	8,905,952	-	8,905,952	-
Book value (in EUR)	86.8	88.5	111.2	114.0	132.7	137.3
International credit ratings						
Moody's	Ba1		A3		A1	
Fitch	BBB		A-		A-	

* Calculated on the basis of average total assets.

Contents

Statement by the President of the Management Board of NLB	2
Report of the Supervisory Board of NLB	4

Business Report

NLB Group 8

Presentation	10
Strategy	15
Corporate governance	17
Internal audit	27
Key events	29

Management Report 30

Macroeconomic environment	32
Operations of the NLB Group in 2011	37
Introduction	37
Financial review of operations	37
Portfolio	43
Liquidity management	44
Funding	45
Segment analysis	47
Corporate banking in Slovenia	48
Retail banking in Slovenia	49
Financial markets in Slovenia	51
Strategic foreign markets	52
Non-strategic markets and activities	53
Other activities	53
Information technology	54

Social Responsibility 56

Human resource management	58
Customers	60
Society and the environment	61

Financial Statements 64

Statement by the President of the Management Board of NLB



Dear shareholders, business partners and employees,

Like the majority of banks in Slovenia and around the world, NLB has been affected by the global financial and economic crisis, the second wave of which hit Slovenia in 2011. In exceptionally difficult circumstances, NLB succeeded in maintaining its leading position on the domestic market, as well as its important role in the narrower region of South-eastern Europe.

The recession, which has affected a large number of the Bank's customers, led to a further, severe deterioration in the quality of NLB's portfolio. To ensure continuing operations, a high level of impairments and provisions were created. These amounted to EUR 466.8 million at the Bank and EUR 520.1 million in the NLB Group overall. The hardest hit customers were those from the sectors of construction, manufacturing, services, finance and trade.

The Bank's loss of EUR 233.2 million in 2011 exceeded the loss generated the previous year. Similarly, the loss generated by the NLB Group was higher than that generated the previous year and amounted to EUR 239.2 million. The negative effects of the operations of subsidiaries, which do not form the strategic core of the NLB Group, account for an increasingly higher proportion of the parent bank's negative operating results. Last year, impairments created for investments in subsidiaries accounted for more than half of the Group's loss. Here it should be noted that results before provisions were better than those recorded in 2010, but primarily on account of one-off effects and lower operating costs.

Last year, the Bank continued to consolidate and rehabilitate in line with NLB's development and operational strategy for the period 2010 to 2014. NLB systematically carried out those activities defined as crucial to achieving established objectives. This included divestment, reducing risk-adjusted assets, lowering the Bank's risk profile and improving cost efficiency.

The NLB Group proceeded with the discontinuation of certain unprofitable activities and withdrew from certain markets last year. As a result, the Bank's total assets were down 6% to stand at EUR 13 billion, while the NLB Group's total assets amounted to EUR 16.4 billion at the end of 2011, a decrease of 8.1% on the previous year. Owing to the aforementioned trends, the contraction in corporate and retail operations continued on both the lending and deposit sides. There was, however, no significant drop in market share.

A great deal of attention was also given to maintaining the Bank's good liquidity position in 2011, which remains one of the key variables for operations in the current year. NLB maintained and even improved its capital adequacy slightly, although it has not yet fulfilled the expectations of Slovenian and European regulators, who insist on the earliest possible compliance with the latest capital standards for banks. The Bank's largest shareholder, the Republic of Slovenia, facilitated a capital increase during the first half of the year, thereby increasing its direct holding to more than half of the Bank's equity. The loss generated mostly offset the aforementioned capital increase. However, consolidation measures led to the freeing up of a significant amount of capital thanks to a reduction in risk-adjusted assets and divestment activities.

Although the government's capital injection was key to maintaining the Bank's capital adequacy, NLB was less than satisfied with government measures aimed at rehabilitating sectors and companies affected by the financial and economic crisis. The grip of the recession is expected to have a significant impact on corporate operations this year. Banks will therefore be forced to focus on those companies that will be able to operate successfully again in the future with financial support and through restructuring. Notwithstanding the fact that banks will bear a significant part of that burden, we can expect that the government will also contribute to the overall rehabilitation of the economy using the measures at its disposal.

The forecasts of both international and domestic institutions indicate that another difficult year awaits us. A further deterioration in the portfolio and another year of high impairment costs can be expected in 2012. Revenue growth at NLB will be low in the context of a slow economic recovery. Nevertheless, we will strive to improve operating results, and prove that the Bank is on the right path and that it is capable of creating added value for its shareholders.

Two factors will be crucial to operations in the future: trends in the external economic environment and our success in restructuring the NLB Group. Banking operations have changed significantly in recent years and require an innovative approach to customers, as well as transparent responses and agreements that take into account the needs of our customers. We cannot fail to recognize that constant awareness of risks and the ability to manage them effectively are crucial to the Bank's commercial activities. That crucial aspect of governance at the Bank is receiving more attention than in past years.

NLB has been faced with serious challenges in recent years, but as always will strive to recapture its tradition of successful operations, primarily on the basis of the invaluable knowledge and dedication of its employees.

Management Board of NLB



Božo Jašovič
President of the
Management Board

Report of the Supervisory Board of NLB



The Supervisory Board of NLB was appointed on June 30, 2009 for the period of time until the conclusion of the Bank's General Meeting of Shareholders, which makes decisions regarding the annual report for the fourth financial year after the election of members. The Supervisory Board comprised the following members in 2011: Marko Simoneti (Chairman), Rasto Ovin (Deputy Chairman), Andrej Baričič, Jurij Detiček, Riet Docx, John Hollows, Anton Macuh, Igor Masten, Stojan Petrič, Boris Škapin and Jan Vanhevel (until May 16, 2011).

Based on the resignation of Jan Vanhevel from his position as member of the Supervisory Board, a proposal on the election of a replacement member was submitted at the General Meeting of Shareholders on June 30, 2011. The proposal, however, was not approved. NLB's Supervisory Board therefore functioned with 10 members during the second half of 2011.

Professional support to the Supervisory Board in its work was provided by four committees in 2011: the Risk Committee, the Audit Committee, the Remuneration and Appointment Committee and the Strategy and Development Committee.

Work of the Supervisory Board

In 2011, the Supervisory Board met at eleven regular and four correspondence sessions, at which it discussed regular reports on the operations of NLB and the NLB Group, as well as other current matters and important issues.

The Supervisory Board performed the following:

- discussed and approved the 2010 Annual Report, adopted the report on the Supervisory Board's work for the previous year, drafted the Bank's corporate governance statement for 2010 in cooperation with the Management Board and approved the Management Board's proposal on the use of distributable profit;
- discussed materials and approved proposals to adopt resolutions at the General Meeting of Shareholders, including proposed changes to the articles of association regarding authorized capital and the proposed election of a replacement member to the Supervisory Board;
- regularly discussed quarterly reports on the operations of the Bank and the Group;
- regularly monitored activities relating to the implementation of the Bank's strategic guidelines and submitted proposals to the Management Board regarding possible measures in specific areas, including the program for divesting non-strategic investments, the sale of seized participating interests in companies and the cost reduction program. It also approved the retail banking restructuring program for the period 2011–2015;
- discussed the capital projection for the Bank and Group for the period 2011–2013, gave its consent to the Management Board's proposal to increase the Bank's capital and regularly monitored the projection of capital adequacy and capital management activities. It also discussed the results of EBA stress tests;
- approved NLB's restructuring program for the period 2011–2015, which served as the basis for the program submitted to the European Commission by the Republic of Slovenia, and regularly monitored activities relating to the European Commission's decision in this matter;
- regularly discussed internal audit reports, and was regularly briefed on letters from the Bank of Slovenia and external regulators and regularly monitored the implementation of their recommendations. It regularly discussed in detail reports regarding the Bank's participation in the Republic of Slovenia's guarantee schemes, reports regarding trends in the Bank's lending activities, reports regarding customers subject to intensive care through measures to actively manage risks, and reports regarding write-offs, conversions and major lending transactions;
- discussed reports regarding measures and activities carried out by the Bank with regard to non-performing loans and for improving operations. It discussed and provided guidelines to the Management Board regarding the Bank's organizational structure in the area of resolving non-performing loans;
- approved and rejected the Bank's exposure to customers in accordance with the Banking Act, and approved exposures to persons in a special relationship with the Bank. It also gave its consent to NLB's borrowing on foreign markets in the form of "club" loans;
- set remuneration criteria for the Management Board in 2011 and approved the remuneration policy for employees whose work is of a specific nature; and
- appointed Guy Snoeks as new member of the Management Board following the resignation of Claude Deroose. Mr. Snoeks is responsible for risk management, payment systems and back-office services and investment evaluation.

Verification and approval of the 2011 Annual Report

On April 5, 2012, NLB's Management Board submitted the 2011 Annual Report, with the audited financial statements of NLB and the consolidated financial statements of the NLB Group, including the auditor's opinion, to the Supervisory Board. According to the auditor, the financial statements and accompanying notes present a true and credible picture of the Bank's and the NLB Group's financial position as at December 31, 2011, and are in line with the International Financial Reporting Standards. Based on its review of the business report, the auditor finds that the information provided in the business section of the annual report is in line with the Bank's and the NLB Group's financial statements.

The Supervisory Board had no comments on the report provided by the auditors of PricewaterhouseCoopers d.o.o., Ljubljana. After carefully verifying the audited annual report for the 2011 financial year, the Supervisory Board had no comments and adopted it unanimously.

Assessment of the Supervisory Board's work

The Supervisory Board carried out a self-assessment of its work in 2011 in accordance with best practices and on the basis of the proposed methodology of the Slovenian Directors' Association. In an anonymous survey, the members of the Supervisory Board stated that they believe the quality of the Supervisory Board's work is very high, although there are some differences in individual areas. Among the positive findings were assessments regarding the independence of Supervisory Board members, their presence, the functioning and quality of contributions made by individual members to the overall work of the Supervisory Board, the monitoring of the implementation of resolutions and the quality of the work of the Supervisory Board' committees. The method used to select candidates for the Supervisory Board is somewhat problematic, but is objectively conditional on agreement between the two largest shareholders, who exercise control over the Bank through a shareholder's agreement. Opportunities to improve the functioning of the Supervisory Board, which the Supervisory Board will attempt to implement in the coming period, lie primarily in the initiation of new members of the Supervisory Board to their functions, the professional development of Supervisory Board members in specific banking areas and the more in-depth discussion of personnel and organizational issues at meetings of the Supervisory Board and its specialized committees.

Members of the Supervisory Board received additional training primarily in the form of seminars organized by the Slovenian Directors' Association, the Bank Association of Slovenia and the Capital Assets Management Agency of the Republic of Slovenia.

The Supervisory Board also discussed and approved a report on the costs of its work. The costs are largely conditional on the fact that the Supervisory Board and its committees work in both the Slovene and English languages.

Costs of the Supervisory Board for the period January 1 to December 31, 2011 and comparison with 2010:

Type of cost (in EUR)	2011	2010
Session fees	60,723	81,291
Reimbursement of expenses	25,961	30,363
Remuneration for functions held	83,050	0
Transport and other travel expenses	12,217	13,370
Printing services	13,911	19,195
Translation services	173,318	238,335
Other costs	21,910	26,812
Total	391,090	409,366

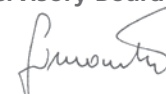
During discussions it was determined that Supervisory Board members were highly active in matters last year, which is understandable given the difficult operating conditions and active restructuring of the Bank. In 2011, there were eleven regular sessions and four correspondence sessions of the Supervisory Board, eight regular sessions of the Audit Committee, six regular sessions of the Risk Committee, five regular sessions of the Strategy and Development Committee and two regular sessions of the Remuneration and Appointment Committee.

At meetings of the Supervisory Board, members took into account the general rules of corporate governance relating to conflicts of interest (e.g. the Companies Act, the Corporate Governance Code and banking regulations) in their decisions regarding specific matters. Members briefed the Supervisory Board on the existence of conflicts of interest in specific matters and excused themselves from related discussions and decisions. Eight different members of the Supervisory Board were excused or excused themselves in four separate matters. In addition to signing a statement of independence in accordance with the Corporate Governance Code, Supervisory Board members also signed a statement of independence pursuant to the code of the Capital Assets Management Agency of the Republic of Slovenia.

Conclusion

The Supervisory Board would like to thank the Bank's owners, the Management Board and all employees for their contribution and efforts last year which, due to the burdens of the past and the difficult economic conditions in Slovenia and abroad, did not produce the desired positive operating results. Special thanks also go to the Bank's many customers, who have remained loyal to the NLB Group during a period of major global financial turmoil and numerous organizational changes. They remain satisfied with our services and believe that we are on the right path to restructuring the Bank and finding an exit from the crisis. Great challenges also await the NLB Group in the future. These challenges can be met successfully and the planned turnaround in operations achieved on the basis of new strategic guidelines.

Supervisory Board of NLB



Marko Simoneti

Chairman of the Supervisory Board

1 Business Report

ACCULTY



A close-up photograph of a green leaf with numerous water droplets of various sizes. The leaf's veins are visible, and some have a reddish-purple hue. A dark purple banner is positioned at the top right of the image.

NLB Group

Presentation	10
Strategy	15
Corporate governance	17
Internal audit	27
Key events	29

Presentation

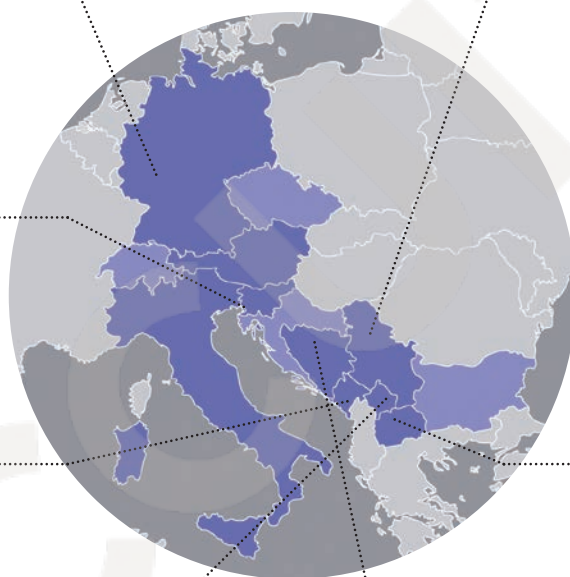
The NLB Group is the largest Slovenian banking and financial group. As at December 31, 2011, it comprised NLB and 47 banks and companies, and a branch and representative offices abroad. Banking is the NLB Group's most important activity, while the Group also provides other financial services, such as insurance, asset management, leasing, factoring and forfeiting.

	LHB Internationale Handelsbank, Frankfurt/Main
Number of branches	1
Number of employees	67
Market share (in %)	–
Total assets (in million EUR)	481

	NLB Trieste Branch
Number of branches	1
Number of employees	24
Market share (in %)	–
Total assets (in million EUR)	117

	NLB Montenegro banka, Podgorica
Number of branches	19
Number of employees	338
Market share (in %)	18.7
Total assets (in million EUR)	529

	NLB Prishtina, Prishtina
Number of branches	66
Number of employees	528
Market share (in %)	15.0
Total assets (in million EUR)	386



	NLB banka, Belgrade
Number of branches	57
Number of employees	607
Market share (in %)	1.8
Total assets (in million EUR)	421

	NLB Tutunska banka, Skopje
Number of branches	49
Number of employees	782
Market share (in %)	19.2
Total assets (in million EUR)	992

	NLB Razvojna banka, Banja Luka	NLB Tuzlanska banka, Tuzla
Number of branches	69	39
Number of employees	495	471
Market share (in %)	20.0*	5.9**
Total assets (in million EUR)	579	459

* Market share in Republika Srpska.

** Market share in the Federation of Bosnia and Herzegovina.

The NLB Group operates in 13 countries, covering 14 markets, and comprises:

- 11 banks and 1 branch abroad;
- 9 leasing companies;
- 10 factoring and forfeiting companies;
- 4 insurance companies;
- 1 asset management company; and
- 14 companies performing other activities.

Banking

The NLB Group is a Slovenian banking and financial group that has given a great deal of attention over the last 10 years to expanding to the markets of SE Europe. The NLB Group is present in the banking sector on the following markets of SE Europe: Bosnia and Herzegovina, Macedonia, Serbia, Montenegro and Kosovo.

Bosnia and Herzegovina

The NLB Group operates in both entities, the Federation of Bosnia and Herzegovina and Republika Srpska.

NLB Razvojna banka is a full-service bank that is also registered for securities trading. It has the second largest business network in Republika Srpska. It is the largest bank in Republika Srpska in terms of the number of customers, and the second largest in terms of total assets.

NLB Tuzlanska banka is a full-service bank with over a hundred years of tradition in providing financial services in the Federation of Bosnia and Herzegovina. It is the fifth largest bank in the Federation of Bosnia and Herzegovina in terms of total assets.

Montenegro

NLB Montenegrobanka operates as a full-service commercial bank and has been owned by the NLB Group since 2003. In that time, it has become one of the most reputable and well-known banks in the country, and is the second largest bank in terms of total assets.

Macedonia

NLB Tutunska banka operates as a full-service commercial bank and is one of the most successful companies of the NLB Group. It has operated as part of the NLB Group since 2000. The bank targets retail customers, and small and medium-sized enterprises (SMEs). It is the third largest bank in the country in terms of total assets.

Serbia

NLB banka is a universal commercial bank that provides banking services to individuals, corporates, banks and international institutions. It ranks sixteenth in the country in terms of total assets.

Kosovo

The NLB Group has been present in Kosovo since the spring of 2007. **NLB Prishtina** is the third largest bank in Kosovo. It provides a solid foundation for comprehensive banking and financial services, and offers high-quality customer services on the emerging Kosovo banking market.

The NLB Group is also active in banking in certain European Union countries.

Germany

LHB Internationale Handelsbank operates as a bank specializing in operations with SE Europe. The bank was in the divestment process at the end of 2010 owing to a change in NLB's strategy.

The NLB Group also operates in EU countries via the associated bank Adria Bank in Austria and the Trieste Branch in Italy.

The **Trieste Branch**, which operates as an NLB branch, transacts primarily with medium-sized enterprises from northern Italy that conduct business with Slovenia and Central and SE Europe. The bank has an office in Trieste.

Non-banking activities

Leasing

With 10 active companies, leasing represents an important activity for the NLB Group. The NLB Group's leasing activity was reorganized with the aim of adapting to the new market conditions and amended strategy, and optimizing operations. In addition to the restructuring of leasing companies on the markets of SE Europe, the reorganization of the leasing activity also included the merger of leasing companies in Slovenia (NLB Leasing Ljubljana, NLB Leasing Koper and NLB Leasing Maribor).

Leasing companies together employ 165 people. The Group's leasing companies in Slovenia hold a 9.2% market share, placing them second in the country. The NLB Group also has a high market share in the leasing segment in Macedonia (28%) and Montenegro (17%).

Factoring and forfeiting

The NLB Group provides factoring and forfeiting services in Slovenia through the Prvi faktor Group. It also provides these services on the markets of SE Europe, in Switzerland, in the Czech Republic and in Slovakia.

NLB InterFinanz Zürich primarily provides forfeiting services, but also offers other commercial banking products.

NLB Factoring focuses mainly on factoring services (including the collection of receivables, administration and insurance) and on short-term and investment loans, and the financing of real estate and development activities. The company is in the process of divestment.

The NLB Group has a 50% stake in the companies of the **Prvi faktor Group**, (with SID banka owning the other 50%). Prvi faktor Group companies specialize in offering comprehensive factoring services (e.g. the purchase, insurance and management of receivables on the domestic and foreign markets). The largest company in the group is Prvi faktor Zagreb, which is also the leading factoring company in Croatia. The parent company, Prvi faktor Ljubljana, is a member of the international factoring association, Factor Chain International (FCI), while Prvi faktor Belgrade is part of the International Factoring Group (IFG).

Following a **change** in the Bank's strategy, factoring is no longer a strategic activity of the NLB Group. Thus, the **divestment** of equity holdings in existing factoring companies is planned in the future.

Asset management

The NLB Group has provided asset management services via **NLB Skladi** since 2004. The company is among the leading providers of investment fund management services in Slovenia. Its market share is 21.1% (in terms of mutual fund assets from non-privatization sources). In addition to the general advantages of mutual funds, NLB Skladi offers additional advantages, such as flexible savings plans, competitive commission rates and management costs in line with international standards, highly transparent investment policies, timely information for investors, and high-quality investor services provided by the NLB Group's banking network.

Life and pension insurance

The NLB Group provides life and pension insurance services.

NLB Vita, which is 50% owned by the NLB Group (the other 50% is owned by the Belgian KBC Group), offers life insurance products tailored to fit special needs and sold exclusively through the banking network. NLB Vita holds a 5.9% share of the Slovenian life insurance market.

Skupna pokojninska družba is an associate of the NLB Group, and is one of the leading providers of voluntary supplementary pension insurance in Slovenia. The company holds a 24.1% market share in terms of funds collected.

The NLB Group also provides pension insurance services in Macedonia, where **NLB Nov penziski fond** offers compulsory and voluntary pension insurance. It holds a 47.2% market share in terms of the number of participants in the compulsory pension fund, and a 32.5% share of the voluntary pension fund.

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In 2010, NLB adopted a strategy that redefines the strategic markets and activities of the NLB Group. The Group's strategic markets remain certain countries of the former Yugoslavia, while NLB is withdrawing from other markets. The NLB Group has also changed its focus with respect to complementary banking services, with factoring and leasing becoming non-strategic activities.

In line with the aforementioned strategy, NLB has begun selling off its investments and activities on non-strategic markets. The expected result of these measures is organizational and financial consolidation, and the strengthening of the NLB Group's capital, which will facilitate increased focus on the markets and activities that proved most profitable and prospective in the past. NLB continues to search for synergies, to consolidate and to rationalize the operations of the NLB Group companies on these markets. A great deal of emphasis is placed on the further development of corporate governance, in particular through the continuation of the process of harmonizing business standards started in the past, and the transfer of know-how and best practices within the Group according to the "business line" system.

Activities in 2011 were in line with the Bank's new strategic objectives. In the scope of gradual withdrawal from non-strategic markets, the process of divestment on the Bulgarian market continues, with the sale of NLB Banka Sophia in July 2011 and the planned sale or liquidation of NLB Leasing Sofia. The voluntary liquidation of NLB Nova penzija was completed in March with the company's deletion from the Business Register of the Republic of Serbia on March 18, 2011. The liquidation of NLB Factor and NLB Tutunska broker was also completed in the final quarter of 2011 (the companies have not yet been deleted from the register).

Other non-strategic investments are also in the process of divestment. With the aim of divesting NLB InterFinanz, that company's 26.72% participating interest in NLB Tutunska banka was transferred to NLB in June 2011. The sale of equity holdings in Adria Bank and LHB Internationale Handelsbank was initiated in 2011, but is not yet complete. Alternative possibilities for divestment are being analyzed for companies that were not sold in the first round of the sales process.

NLB's purchase of NLB Leasing Sarajevo from NLB Leasing Ljubljana was entered in the companies register in February 2011 as part of the reorganization of the leasing activity within the NLB Group. Special project teams were established on the markets where leasing companies operate (e.g. Macedonia, Montenegro, Bosnia and Herzegovina and Slovenia) as part of the ongoing reorganization.

Capital increases were made at the following companies in 2011 to ensure an appropriate level of capital at NLB Group companies: NLB Serbia, NLB Leasing Sarajevo, NLB Factoring, Optima Leasing, Prvi faktor Sarajevo, NLB Nov penziski fond, NLB Leasing Maribor, NLB Razvojna banka, NLB Factor, NLB Leasing Ljubljana and LHB Internationale Handelsbank.

Table 1:
Matrix of activities of the NLB Group
by country as at December 31, 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; Kreditni biro SISBON, Ljubljana
	Austria	Adria Bank, Vienna					
	Czech Republic			NLB InterFinanz, Prague; NLB Factoring, Ostrava			
	Italy	Trieste Branch, Trieste*					
	Germany	LHB Internationale Handelsbank, Frankfurt/Main					LHB Immobilien, Frankfurt/Main
	Switzerland			NLB InterFinanz, Zurich			
Southeastern Europe	Bulgaria		NLB Leasing, Sofia				
	Bosnia and Herzegovina	NLB Razvojna banka, Banja Luka; NLB Tuzlanska banka, Tuzla	NLB Leasing, Sarajevo	Prvi faktor, Sarajevo			Plan, Banja Luka; CBS Invest, Sarajevo
	Montenegro	NLB Montenegrobanka, Podgorica	NLB Leasing, Podgorica		NLB Penzija, Podgorica**		
	Croatia		Optima Leasing, Zagreb	Prvi faktor, Zagreb			LHB Trade, Zagreb; OL Nekretnine, Zagreb
	Kosovo	NLB Prishtina, Prishtina					
	Macedonia	NLB Tutunska banka, Skopje	NLB Lizing, Skopje	Prvi faktor, Skopje	NLB Nov penziski fond, Skopje		
	Serbia	NLB banka, Belgrade	NLB Leasing, Belgrade	NLB InterFinanz, Belgrade; Prvi faktor, Belgrade			Conet (in liquidation), Novi Sad; Convest, Novi Sad; NLB Srbija, Belgrade

* The Trieste Branch is part of NLB.

** The company has not yet obtained the fund management licence.

Strategy

Values, vision and mission

The **values** on which the vision and mission of the NLB Group are based are security, reliability, customer-orientation, quality, professionalism, and a proactive and goal-oriented approach.

The **vision** of the NLB Group over the medium term is to become one of the leading, and most profitable and reliable banking and financial groups in South-eastern Europe in terms of risks assumed.

The **mission** of the NLB Group is to be a reliable long-term partner for its customers. The NLB Group provides its customers the premium comprehensive financial services and solutions they need to achieve their objectives.

Strategic objectives

The NLB Group's strategic objectives are based on the assumption that it is an independent banking group that develops its own business model and ensures the necessary strategic resources for growth and development.

The NLB Group is a full-service banking group operating in South-eastern Europe.

Slovenia, where the NLB Group generates the majority of its revenue, is also the Group's strategic key market. The Group's strategic objective in Slovenia is to maintain its leading market share of traditional banking services and increase its market share of complementary banking services, in particular life insurance and asset management.

The NLB Group's secondary strategic market is South-eastern Europe, where it is active on the retail banking market, and includes the following countries: Bosnia and Herzegovina, Montenegro, Kosovo and Macedonia. The strategic objective for these markets is to be a leading service provider.

The NLB Group provides comprehensive banking and financial services.

The NLB Group is a full-service banking group which, in addition to basic banking services, offers other comprehensive financial services to fulfill all its customers' financial needs.

The key strategic pillars include:

- **Retail banking**, which includes:
 - commercial banking,
 - asset management,
 - life and pension insurance,
 - private banking.

- **Corporate banking**, which includes:
 - commercial banking,
 - corporate finance,
 - brokerage services on the capital markets according to its customers' needs,
 - trade finance.

Measures to achieve strategic objectives

The following measures must be implemented in the future to achieve strategic objectives:

- **Short-term activities**, that will eliminate key weaknesses in the NLB Group's current mode of operations. These activities include the restructuring and consolidation of the Group (i.e. reducing the number of companies via sell-offs, mergers and liquidation) and changes to the Group's corporate governance approach (i.e. changes to corporate governance mechanisms) and risk management (i.e. updating the risk management system and amending the risk profile).
- **Medium-term activities** (until 2015) that will improve the Group's ability to generate revenue (i.e. comprehensive customer management, segmentation of products and customers, and development of the range of products and services and marketing approaches) and improving the process and cost effectiveness of operations (e.g. the recasting of business processes, the standardization of technological platforms and cost control).

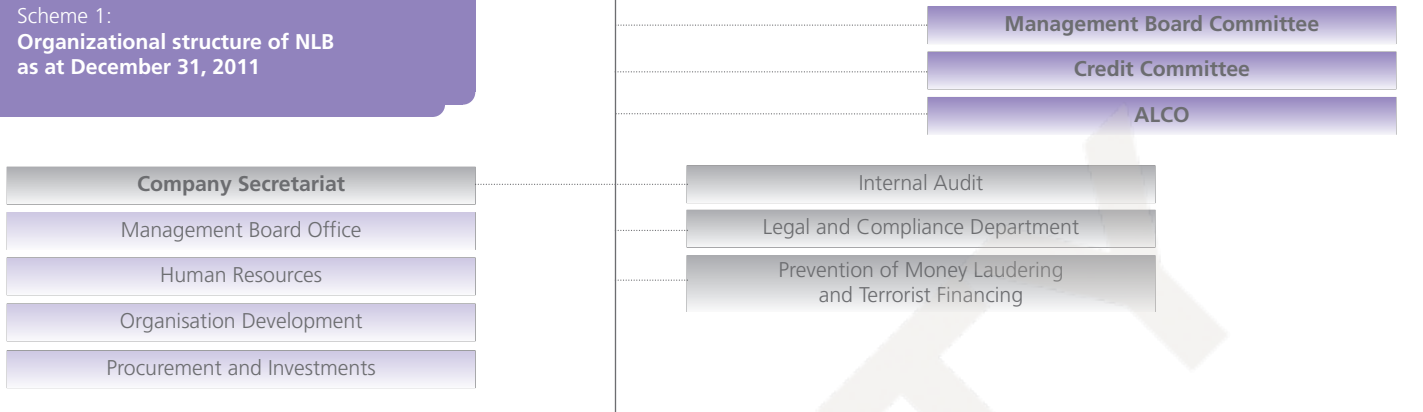
Table 2:
Target financial performance indicators

	2011	2015 target
Profitability		
Return on equity after tax (ROE a.t.)	-22.7%	10%
Cost / income ratio (CIR)	59.7%	53%
Equity		
Capital adequacy	11.1%	12%
Tier 1	7.2%	10%
Loans/deposits		
Loans of non-banking sector / deposit from non-banking sector (LTD)	105.4%	< 120%
Maximum exposure		
Counterparty – as a % of capital for risk management		
Slovenia	25%	10%
Abroad	25%	5%

Corporate governance

MANAGEMENT BOARD

Scheme 1:
Organizational structure of NLB
as at December 31, 2011



NLB Group Corporate Governance Directorate	Investment Evaluation	Financial Markets Coordination	Client Opinion and Complaint Management	Coordination and Development	Payment and Back Office Systems	Information Technology
Capital Investments Management and Control	Intensive Care and Recovery	NLB Group Treasury & Financial Markets	Private Banking	Trade Finance Processing	Processing and Settlement of Payments with Euro Payment Systems	Information Technology Strategic Management Department
Group Business Management	Financial Management	Assets and Liabilities Management – ALM & Treasury	Marketing, Customer segments and Development	Corporate Banking Division	International Payments	Information System Development
Associated Banks in Slovenia	Controlling	Financial Markets	Customer Segment Management Department	Corporate Banking – Central Slovenia 1	Cash Services	IT Data Centre
Subsidiaries & Associated Banks Abroad	Financial Accounting	Investment Banking	Product and Distribution Channel Development Department	Corporate Banking – Central Slovenia 2	Treasury and Investment Banking Support Services	Business Continuity Management
Subsidiaries & Associated Companies in Slovenia	Accounts Administration and Payroll	Custody Management	Card Operation Department	Corporate Banking – Central Slovenia 3	Corporate Banking Back Office	
Subsidiaries & Associated Companies Abroad	Risk Management	Debt Capital Markets	Marketing Research and Communications Department	Corporate Banking Savinjsko – Šaleška	Retail Banking Back Office	
	Risk Management	International and NLB Group Business	Retail	Corporate Banking Pomurje		
	Middle Office Financial Markets	Financial Institutions and International Financing	Credit Scoring Office	Corporate Banking Podravje – Koroška		
			Internal Control Office	Corporate Banking Primorska		
			Sales Support and Retail Network Development Dep.	Area Branch Trieste		
			Customer Support Department			
			Area Branch Ljubljana – Center			
			Area Branch Vič – Notranjska in Moste			
			Area Branch Šiška – Bežigrad in Gorenjska			
			Area Branch Domžale, Kamnik in Zasavje			
			Area Branch Šaleško – Koroška			
			Area Branch Podravje			
			Area Branch Dolenjska in Bela krajina			
			Area Branch Savinjsko – Posavska			
			Area Branch Pomurje			
			Area Branch Primorska			
Management Centre		Value Centre 1	Value Centre 2	Value Centre 3	Payment and Back Office Systems	Information Technology

In accordance with valid legislation, NLB employs a two-tier system of corporate governance, by which the Bank is managed by the Management Board and its operations are supervised by the Supervisory Board. The Bank's bodies are the General Meeting of Shareholders, Supervisory Board and Management Board.

Management Board

NLB's Management Board leads, represents and acts on behalf of the Bank, independently and on its own responsibility, as provided for by the law and the Bank's articles of association. In accordance with the articles of association, the Supervisory Board may appoint (and recall) three to six members (a president and up to five members) to the Management Board. The president and members are appointed for a term of five years, and may be reappointed or recalled before their term expires in accordance with the law and the Bank's articles of association.

The terms of Božo Jašovič and David Benedek expire on September 30, 2014 and July 14, 2014 (Božo Jašovič resigned on December 20, 2011), respectively, while the terms of Marko Jazbec and Robert Kleindienst expire on November 30, 2014 (Robert Kleindienst resigned on February 2, 2012). Guy Snoeks was appointed to the Management Board on July 5, 2011 due to the resignation of Claude Deroose.

Table 3:
Management Board of NLB: responsibilities of members for individual areas of operations and important positions outside NLB as at December 31, 2011

Name	Immediate responsibility	Important positions outside NLB
Božo Jašovič President of the Management Board	<ul style="list-style-type: none"> – General Secretary – Office of the Management Board – Organizational development – Procurement and investments – Internal audit – Legal and compliance department – Prevention of money laundering and terrorist financing – Financial management 	<p>Chairman of the Supervisory Board: Združenje bank Slovenije (Bank Association of Slovenia)</p> <p>Member of the Board: Faculty of Economics, University of Ljubljana</p> <p>Member of the Management Board: Chamber of Commerce and Industry of Slovenia</p>
David Benedek Member of the Management Board	<ul style="list-style-type: none"> – NLB Group management – Financial markets and treasury – Operations with financial institutions and international financing – IT 	<p>Chairman of the Supervisory Board: LHB Internationale Handelsbank, Frankfurt/Main</p> <p>President of the Management Board: NLB InterFinanz, Zurich NLB Prishtina, Prishtina</p> <p>Chairman of the Board of Directors: NLB Montenegro banka, Podgorica</p>
Claude Deroose Member of the Management Board (until May 16, 2011)	-	<p>President of the Management Board: NLB InterFinanz, Zurich</p> <p>Member of the Supervisory Board LHB Internationale Handelsbank, Frankfurt/Main Adria Bank, Vienna</p> <p>Member of the Management Board: NLB banka, Belgrade</p>
Marko Jazbec Member of the Management Board	<ul style="list-style-type: none"> – Corporate banking – Documentary operations – Intensive care and recovery 	<p>Chairman of the Supervisory Board: NLB Tutunska banka, Skopje NLB Razvojna banka, Banja Luka NLB Tuzlanska banka, Tuzla CBSinvest, Sarajevo</p> <p>President of the Management Board: NLB banka, Belgrade</p>
Robert Kleindienst Member of the Management Board	<ul style="list-style-type: none"> – Marketing and product development – Retail banking and operations with sole traders and SMEs – Human resource management 	<p>Member of the Supervisory Board: NLB Vita, Ljubljana</p>
Guy Snoeks Member of the Management Board (since July 5, 2011)	<ul style="list-style-type: none"> – Investment evaluation – Risk management – Payment systems and back-office services 	-

Collective decision-making bodies

- The **NLB Corporate Credit Committee** determines credit ratings and makes decisions on the reclassification of customers, sets maximum borrowing limits and approves commercial banking investments. The committee meets once a week and comprises five members. The committee's chairman is member of the Management Board, Marko Jazbec.
- The **NLB Retail Credit Committee** decides on the approval of loans and other investment proposals, the conditions of which deviate from standard banking products and services and which represent additional risks for the Bank. The committee meets once a week and comprises five members. Member of the Management Board, Marko Jazbec, serves as the committee's chairman.
- The **NLB Assets and Liabilities Committee** monitors conditions on the financial markets and analyses the balance, changes to and trends in the Bank's assets and liabilities. It also adopts decisions with respect to achieving the desired balance sheet structure that are in line with the Bank's business policy and that facilitate normal operations and the implementation of established plans. The committee meets once a month and comprises five members. Member of the Management Board, David Benedek, serves as the committee's chairman.
- The **NLB Group Assets and Liabilities Committee** monitors and discusses the operations of NLB Group companies involved in banking, leasing and factoring and whose majority owner is NLB, including the financial company NLB InterFinanz and the joint venture Prvi Faktor. The committee typically meets quarterly and comprises 13 members. The President of the Management Board, Božo Jašovič, serves as the committee's chairman.
- The **NLB Information Technology Committee** confirms the Bank's annual development plan by setting priorities. It is also responsible for approving changes to priorities and for overall control in areas tied to the realization of established objectives by the envisaged deadlines and in line with the planned budget. The committee generally meets five times a year. Member of the Management Board, David Benedek, serves as the committee's chairman.
- The **NLB Operational Risk Committee** is a collective decision-making body of the Bank's Management Board responsible for monitoring, guiding and supervising operational risk management at NLB, and for transferring this methodology to NLB Group companies. Meetings are typically convened every two months. The committee comprises 14 members. Member of the Management Board, Guy Snoeks, serves as the committee's chairman.

Advisory bodies of the Bank's Management Board

- The **NLB Price Policy Committee** is the Management Board's coordinating and advisory body responsible for drafting resolutions regarding interest rates, tariffs and internal transfer prices in line with NLB's business policy and objectives.
- The **NLB Trading and Market Risk Committee** is the Management Board's coordinating and advisory body responsible for defining, adopting and supervising the implementation of the Bank's policies and methodologies in the area of trading.
- The **College of the Bank** is the advisory body of the Management Board where opinions and suggestions regarding matters that fall under the decision-making authority of the Management Board are shared.
- The **Strategic Conference of the NLB Group** and the **Business Conference of the NLB Group** are typically convened once a year. The NLB Group's strategic and business objectives are discussed at meetings.

Supervisory Board

NLB's Supervisory Board monitors and supervises the management and operations of the Bank. It carries out its tasks in accordance with the provisions of the laws governing banks and companies and *NLB's articles of association*, which define the Supervisory Board's responsibilities in Article 24. In accordance with the articles of association, the Supervisory Board has 11 members appointed and recalled by the Bank's General Meeting of Shareholders from candidates proposed by the shareholders or the Supervisory Board.

At the General Meeting of Shareholders of June 30, 2009, a new Supervisory Board was appointed for a term of four years. Following the resignation of member of the Supervisory Board Jan Vanhevel on May 16, 2011, the General Meeting of Shareholders of June 30, 2011 did not appoint a replacement. Stojan Petrič resigned on January 24, 2012. The Supervisory Board, therefore, functions with 9 members.

Marko Simoneti (53)

Dr. Marko Simoneti received his doctorate in economics from Cornell University in the US. He lectures as an associate professor of money and finance at the Faculty of Law at the University of Ljubljana. Prior to that, he was the President of the Management Board of the Ljubljana Stock Exchange from 2004 to 2009, Director of the Central and Eastern European Privatization Network (CEEPN) from 1993 to 2004 and Director of the Privatization Agency of the Republic of Slovenia from 1990 to 1993.

He is a member of the Supervisory Board of Luka Koper.

Rasto Ovin (63)

Dr. Rasto Ovin received his doctorate in economics. He is a professor of economic theory and economic policy at the Department for Economic Policy, and Chair of the Institute for Economic Diagnosis and Prognosis at the Faculty of Economics and Business at the University of Maribor. He served as head of the most distinguished projects at the faculty, and served as Deputy Dean, Vice Chancellor and Dean of the Faculty of Economics and Business at the University of Maribor.

He is a member and Deputy Chairman of the Fiscal Council of the Republic of Slovenia.

Andrej Baričič (49)

Dr. Andrej Baričič received his doctorate in law and property management, and is the Director of the consultancy company ASC in London. The company provides consultancy services to non-financial corporations in the area of corporate governance. Dr. Baričič gained the majority of his work experience in management positions in the banking sector, higher education and as a consultancy project manager in Slovenia and Austria.

He is a member of the boards of the University Medical Center in Ljubljana, the Bežigrad General Secondary School and the Prežihov Voranc Primary School in Ljubljana. He is also President of the Olimpija Academic Sports Association in Ljubljana.

Table 4:
Supervisory Board of NLB

Name	Position	Term	Audit Committee*	Risk Committee	Strategy and Development Committee	Remuneration and Appointment Committee
Marko Simoneti	Chairman	2009–2013	-	-	Member	Chairman
Rasto Ovin	Deputy Chairman	2009–2013	-	-	Chairman	-
Andrej Baričič	Member	2009–2013	Chairman	Member	-	-
Jurij Detiček	Member	2010–2013	-	Member**	Member	Member
Riet Docx	Member	2009–2013	Member	Member	-	-
John Hollows	Member	2009–2013	Member	-	Member	Member
Anton Macuh	Member	2010–2013	Member	-	-	-
Igor Masten	Member	2009–2013	-	Chairman	-	-
Stojan Petrič	Member (until January 24, 2012)	2009–2013	-	Member	-	-
Boris Škapin	Member	2009–2013	-	Member***	Member	Member
Jan Vanhevel	Member (until May 16, 2011)	2009–2013	-	-	-	-

* In addition to the aforementioned members, Sergeja Slapničar is also a member of the Audit Committee as an independent external expert.

** Since February 2011.

*** Until February 2011.

Jurij Detiček (60)

Jurij Detiček received his bachelor's degree in economics, and was President of the Management Board of Adria Bank in Vienna from 1999 to 2010, prior to his retirement. Prior to his work at Adria Bank, Mr. Detiček was an executive director for many years at NLB in the areas of international transactions, treasury, risk management, payment transactions and finance. He was a member of the Management Board of the former Ljubljanska banka (from 1992 to 1994), and Director of the International Transactions Sector prior to that. He was also the chairman or member of the supervisory boards of many NLB Group banks and companies, both in Slovenia and abroad.

He is a member of the Supervisory Board of KB 1909 in Gorizia, Italy and Deputy Chairman of the Supervisory Board of Granolio in Zagreb, Croatia.

Riet Paula C L Docx (61)

Riet Paula C L Docx, MSc received her master's degree in applied economics from the University of Antwerp in Belgium. She has been Director of the Central and Eastern Europe and Russia Directorate at KBC since 2005. From 1994 to 2004, she was Regional Director for Retail Operations at KBC. Prior to that, she was the General Director of the Omniver and Omniver Leven general and life insurance companies from 1987 to 1994. She served in various functions at Benelux Bank from 1976 to 1987.

She is a member of the Supervisory Board of SD Worx in Belgium.

John Arthur Hollows (55)

John Arthur Hollows, MSc received his master's degree in law and economics at the University of Cambridge in the United Kingdom. He is an Associate of the Chartered Institute of Bankers in the United Kingdom. He has been a member of the KBC Group's Board of Directors since 2011 and Executive Committee since 2009, and Chief Risk Officer since 2010. He was Executive Director for Central and Eastern Europe and Russia in the KBC Group from 2009 to 2010, and General Director for Central and Eastern Europe and Russia from 2006 to 2009. He was the Director of K&H Bank in Hungary from 2003 to 2006, and Director of the Asia Pacific Region at KBC Bank from 1999 to 2003. From 1996 to 1999, Mr. Hollows was Director of the Shanghai KBC Branch. Prior to that, he was employed by Barclays Bank from 1978.

He is also Director and member of the Board of Directors and Executive Committee at KBC Bank and KBC Insurance, and a member of the Board of Directors of KBC Global Services.

Anton Macuh (68)

Anton Macuh received his bachelor's degree in economics. Before his retirement, Mr. Macuh was the NLB Management Board's special representative for trade finance from 2002 to 2006. From 1995 to 2001, he was Director of LB InterFinanz, Zurich. He served as a consultant to NLB's Management Board from 1993 to 1995. From 1992 to 1993, Mr. Macuh was Director of the Agency of the Republic of Slovenia for the Rehabilitation of Banks and Savings Banks. Prior to that, he served in several management functions in the former Ljubljanska banka Group both in Slovenia and abroad, including Executive Vice President and President of LBS Bank New York (from 1989 to 1990) and Director of Ljubljanska banka's representative office in London (from 1981 to 1985).

He was also the chairman or member of the supervisory boards of many NLB Group companies, both in Slovenia and abroad.

Igor Masten (36)

Dr. Igor Masten received his doctorate in economics, and is an associate professor in the Department for Money and Finance and the Department for Statistics at the Faculty of Economics at the University of Ljubljana. From 2008 to 2009, he conducted research at the Robert Schuman Centre for Advanced Studies at the European University Institute. From 2005 to 2008, he was an assistant professor at the

Faculty of Economics at the University of Ljubljana. Prior to that, Dr. Masten was a guest professor at the University of Siena and conducted research at the European Central Bank.

Stojan Petrič (62)

Stojan Petrič received his bachelor's degree in economics. He has been the President of the Kolektor Group in Idrija since 2004, and was Director of the company Kolektor in Idrija from 1994 to 2004. Prior to that, he served as Director of Sales and Manager of the External Trade Sector, and in various other functions at the aforementioned company.

Mr. Petrič is Chairman of the Supervisory Boards of the companies FMR and Fond, and Director of the company Comtrade in Klagenfurt. He is also a member of the Strategic Council of the President of Slovenia and the Strategic Council of the Prime Minister, Chairman of the General Meeting of the Chamber of Commerce and Industry of Slovenia, member of the Board of Directors of the Managers' Association of Slovenia and member of the board of the Faculty of Economics.

Boris Škapin (64)

Boris Škapin received his master's degree in business and organizational sciences. He is President of the consulting company Consulta in Ljubljana and a member of the Board of Directors and Executive Director of Promos Holding in Zurich. He was a Deputy Executive Director at the World Bank and the International Financial Corporation in Washington D.C. (from 1990 to 1999), assistant and later Deputy of the SFRY (for international relations from 1986 to 1990), Director of the Institute for the Economics of Investments and in charge of cooperation with MIFs at the former Ljubljanska banka (from 1982 to 1986), project manager at the IFC in Washington D.C. for Latin America (from 1975 to 1982) and an economist in the International Relations Sector at Ljubljanska banka (from 1971).

He was also a member of the supervisory boards of several Slovenian companies, a member of the executive boards of international financial institutions abroad (the African Development Bank in Abidjan, RC in New York, AMSCO in Amsterdam and a member of the founding committee of the EBRD in London) and a consultant for numerous companies and banks in Slovenia and abroad.

Sergeja Slapničar (40) – independent external member of the Audit Committee

Dr. Sergeja Slapničar is an associate professor and Chair of the Department for Accounting and Auditing at the Faculty of Economics at the University of Ljubljana, where she has been employed since 1995.

She is a member of the Supervisory Board of Krka and an independent member of the Audit Committee of Telekom Slovenije. Dr. Slapničar is Chairwoman of the conciliation committee for the testing of exchange ratios in the ownership transformation of companies under the Companies Act and an active member and lecturer at the Slovenian Directors' Association. She is also a member of European and US accounting associations

Responsibilities of the Supervisory Board

The responsibilities of the Bank's Supervisory Board are:

- to monitor and supervise the management and operations of the Bank, and to propose measures to eliminate identified irregularities;
- to review reports of the Management Board and supervise its management of the banking group, and to propose measures to eliminate identified irregularities;
- to report to the Bank's General Meeting of Shareholders with regard to its work and findings as necessary, or at a minimum, when the annual report is released, and to approve measures to improve operations;
- to discuss reports regarding internal supervision and audits, and to propose the adoption of direct measures on the basis of these reports;
- to approve the adoption of the Bank's general acts as determined by the articles of association, except for acts that require approval by the General Meeting of Shareholders, or acts based on laws or valid resolutions adopted by the General Meeting of Shareholders;

- to approve decisions of the Management Board as required by regulations or the articles of association;
- to draft proposals for the Bank's General Meeting of Shareholders and carry out the tasks defined thereby, unless otherwise stipulated by regulations;
- to examine and approve the annual report and the proposal for the use of distributable profit, and to prepare a written report for the General Meeting of Shareholders regarding the results of its examination;
- to approve the Bank's strategy, annual financial plan and business plan;
- to discuss and monitor interim reports on the Bank's operations;
- to set credit and guarantee limits, and other limits related to the Bank's operations;
- to approve all activities that involve changes in the status of companies and other legal entities under the Bank's majority ownership;
- to set the Bank's long-term borrowing limit;
- to appoint and recall members of the Management Board;
- to adopt rules of procedure regarding its work;
- to define remuneration criteria for members of the Management Board and continuously verify their fulfillment;
- to conclude contracts with members of the Bank's Management Board, whereby the Bank is obliged to disclose data regarding individual remuneration of Management Board and Supervisory Board members in the Bank's annual report, including notes to the criteria under the previous indent; and
- to approve changes to the articles of association that relate to the coordination of its wording with valid decisions adopted by the Bank's General Meeting of Shareholders or Management Board.

Committees of the Bank's Supervisory Board

- The **Strategy and Development Committee** monitors issues regarding the Bank's strategic objectives and development, and drafts proposals concerning Supervisory Board decisions, primarily by discussing, reviewing and assessing the entire medium-term or long-term strategic plan of NLB and the NLB Group, and the more important elements of the Bank's strategic and development plans. It discusses the adequacy of NLB's and the NLB Group's organization and corporate governance, discusses sales and purchases of participating interest in the NLB Group from a strategic point of view, and discusses the annual financial and business plans of NLB and the NLB Group on the basis of the adopted medium-term/long-term strategy and development.
- The **Audit Committee** monitors and drafts proposals for Supervisory Board decisions concerning internal audits and the legal compliance of the Bank's operations, and for external and internal audit reports. It assesses auditing procedures, assesses and adopts recommendations or decisions related to the documents of external regulators, assesses internal controls, and assesses and recommends accounting standards and policies to be applied at the Bank.
- The **Risk Committee** monitors and drafts proposals for Supervisory Board decisions concerning all areas of risk relevant to the Bank's operations.
- The **Remuneration and Appointment Committee** monitors basic strategic issues and drafts proposals for Supervisory Board decisions concerning the appointment and dismissal of Management Board members, determines the methods of recruiting and selecting Management Board candidates, concludes and oversees the content of individual employment contracts with members of the Management Board, oversees the remuneration of Management Board members and sets remuneration criteria and policies.

General Meeting of Shareholders

The General Meeting of NLB Shareholders meets and makes decisions at regular and extraordinary meetings, where it adopts resolutions in accordance with the law and the Bank's articles of association. The responsibilities of the General Meeting of NLB Shareholders are stipulated by the Companies Act, the Banking Act and NLB's articles of association.

The General Meeting of Shareholders makes decisions regarding:

- the Bank's articles of association and changes thereto;
- the rules of procedure of the General Meeting of Shareholders;

- the annual report, if the Supervisory Board has not confirmed the annual report or if the Management Board and the Supervisory Board defer the decision regarding the adoption of the annual report to the General Meeting of Shareholders;
- the use of the distributable profit;
- the discharge of the Management Board and the Supervisory Board;
- changes in the Bank's share capital;
- annual limits and characteristics of the issue of securities convertible to shares, and the Bank's equity securities;
- the appointment and recall of Supervisory Board members;
- the remuneration of Supervisory Board members, and participation in the Bank's profits by members of its Supervisory Board, Management Board and employees;
- the organization that will carry out the audit of the Bank's financial statements; and
- changes in status, mergers and the discontinuation of the Bank's operations.

Representatives of NLB shareholders met at the 17th General Meeting of Shareholders on June 30, 2011. A total of 85.79% of the shareholders were represented. Shareholders were briefed on the approved 2010 annual report, the Supervisory Board's report, information regarding the remuneration of members of the Management Board and Supervisory Board in 2010 and on the rules of NLB's Supervisory Board for defining other rights under the ZPPOGD. Shareholders conferred official approval upon the Management Board and Supervisory Board for the 2010 financial year. Shareholders adopted specific changes to NLB's articles of association, which define in detail the work methods of the Bank's management bodies and General Meeting of Shareholders and facilitate changes to remuneration paid to members of the Supervisory Board.

The shareholders present at the General Meeting appointed PricewaterhouseCoopers as auditor for the 2011 financial year.

The proposal to appoint Dirk Mampaey from the KBC Group to replace Jan Vanhevel (who submitted his resignation in February 2011) as member of NLB's Supervisory Board was not adopted.

The Bank's Management Board also briefed the General Meeting of Shareholders on measures and activities aimed at improving the Bank's operations, with an emphasis on the management of non-performing loans.

Representatives of NLB shareholders met at the 18th General Meeting of Shareholders on October 27, 2011. A total of 85.4% of the shareholders were represented. The General Meeting of Shareholders approved the Bank's authorized capital and the proposed change to NLB's articles of association, by which

Table 5:
Ten largest NLB shareholders
as at December 31, 2011

Name of shareholder	Number of shares	Share (in %)
1 Republic of Slovenia*	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 podsklad	131,693	1.19
9 Delniški vzajemni sklad Triglav steber I	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
Shareholders – total (1,990 shareholders)	11,061,125	100.00

* With all the stakes mentioned and the stakes held by minor shareholders directly or indirectly owned by the Republic of Slovenia, the Republic of Slovenia holds a qualified stake of over 50%.

the General Meeting of Shareholders authorized the Bank's Management Board (with the Supervisory Board's consent and without an additional general meeting resolution) to increase NLB's share capital once or several times over a five-year period in the maximum amount of one half of the Bank's current share capital through the issue of new shares, under the conditions and in the manner set out in the Management Board's decision, which has received the Supervisory Board's consent. The General Meeting of Shareholders also discussed an additional item on the agenda put forth by the Republic of Slovenia, as shareholder, regarding the recall of members of the Supervisory Board and the appointment of new members. The General Meeting of Shareholders did not agree with the recall of four current members of the Supervisory Board. Thus, shareholders did not vote on the Republic of Slovenia's proposal to appoint new members to the aforementioned body.

NLB does not have any shareholders with special controlling rights.

NLB has no limitations on voting rights, as voting rights are attached to all NLB shares (except to treasury shares) in accordance with the law.

The composition of shareholders was as follows as at December 31, 2011: 75% domestic and 25% foreign shareholders.

NLB Group corporate governance

NLB, as the parent bank of the NLB Group, provides corporate governance for the NLB Group in accordance with the laws of the Republic of Slovenia and the laws of the countries in which NLB Group companies operate, while taking into account internal rules.

Corporate governance, as one of the Group's core business functions, is comprehensively regulated by the *Corporate Governance Policy of the NLB Group*, which defines the roles, competencies and responsibilities of individual bodies and organizational units to ensure they function cooperatively and harmoniously to achieve the Bank's business objectives.

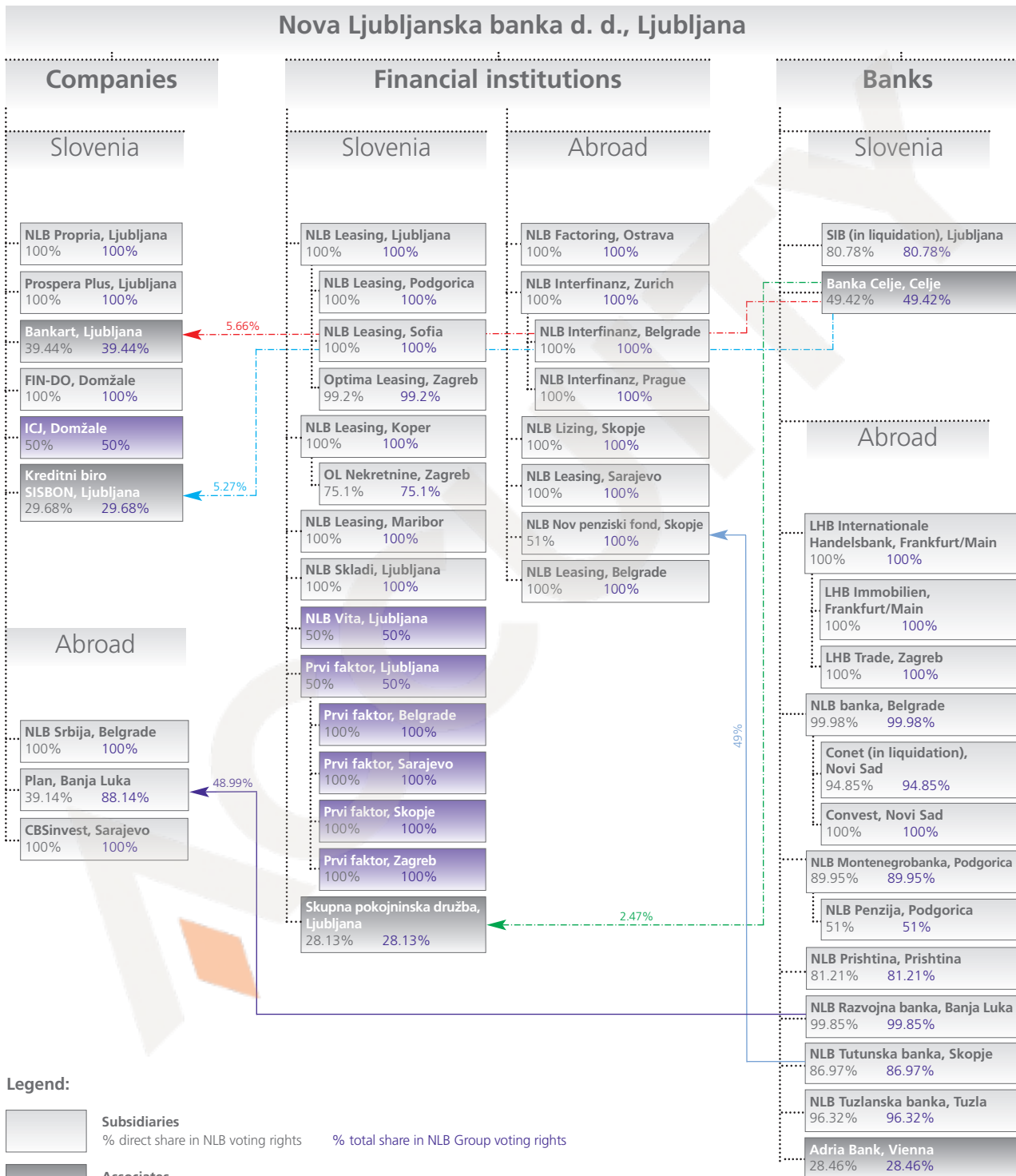
NLB continuously supplements and updates the NLB Group's system of corporate governance as a combination of the laws that regulate NLB and NLB Group companies, and in accordance with best business practices. NLB Group corporate governance is therefore implemented:

- in accordance with fundamental corporate rules through various bodies of the NLB Group companies:
 - through voting at the general meetings of shareholders of NLB Group companies;
 - by appointing NLB representatives to supervisory bodies;
 - by proposing executive appointments for NLB Group companies; and
 - through the participation of NLB representatives in various committees and commissions of NLB Group companies.
- through mechanisms for effectively monitoring operations, harmonizing business standards and disseminating information within the NLB Group:
 - by business area (i.e. according to the "business line" principle), meaning the principle of commercial and professional coordination within the NLB Group;
 - through the NLB Group Assets and Liabilities Committee; and
 - by convening strategic conferences (where all NLB Group companies discuss the development priorities of the Group) and regional meetings, at which all companies of the NLB Group in a particular country gather to discuss and coordinate the Group's development priorities for specific markets.

NLB's Internal Audit Center and external supervisors (e.g. the Bank of Slovenia and external auditors) provide additional supervision for the NLB Group.

In addition to the NLB Group Assets and Liabilities Committee, the **NLB Group Corporate Governance Directorate** was established with the aim of implementing corporate governance within the Group. In addition to established forms of corporate governance, the Directorate also implements corporate governance by individual areas and companies. The Directorate provides corporate governance for NLB Group companies, harmonizes the rules of operations of those companies, and drafts plans for individual companies and monitors their implementation.

Scheme 2:
Organizational structure of NLB Group
as at December 31, 2011



Legend:

	Subsidiaries	% direct share in NLB voting rights	% total share in NLB Group voting rights
	Associates	% direct share in NLB voting rights	% total share in NLB Group voting rights
	Joint venture	% direct share in NLB voting rights	% total share in NLB Group voting rights

* Scheme shows shares of voting rights.

Internal audit

NLB's Internal Audit Center (hereinafter: the Center) functions in an independent and objective advisory role, using a systematic and professional approach to assess risk management, control systems and the management of operations. It plays an important role in the implementation of strategic and business objectives and best banking practices.

The Center operates in accordance with the *International Standards for the Professional Practice of Internal Auditing*, the *Banking Act*, the *Code of Ethics of Internal Auditors* and the *Code of Internal Auditing Principles*. The Center received an external quality assessment of operations in accordance with the rules of the internal auditing profession as adopted by the Institute of Internal Auditors based in the US and the Slovenian Institute of Auditors. The Center's purpose, effectiveness, work methodology, and competencies and responsibilities are defined in the *Internal Audit Charter*. Guidelines for the Center's work are outlined in the Internal Audit Manual. The Center regularly reports to the Management Board, the Supervisory Board and its Audit Committee, and to external auditors as required.

In accordance with established principles of corporate governance, the Center is also responsible for coordinating the internal auditing activities of the entire NLB Group. The Center is responsible for harmonizing and implementing uniform standards and methodologies for the Group. This is done by involving the management bodies of NLB Group companies and by providing them with professional training. Internal NLB auditors act as consultants to Group companies and work with them by providing additional expert assistance in their internal audits.

The following also contribute to the harmonized functioning of the NLB Group's internal audit departments:

- regular training courses and seminars for all NLB Group auditors;
- sharing of expert opinions and instructions, and expert assistance in everyday work; and
- coordinating and organizing development work in the scope of working groups.

Internal audit activities

The main role of the Internal Audit Center is to provide NLB's Management Board and Supervisory Board objective assurance with respect to the effectiveness of risk management by assessing whether critical risks are managed appropriately and whether the internal control system is functioning effectively. A good internal control system is the key element to effective risk management, which in turn is critical to achieving the Bank's business objectives.

The emphasis of internal auditing is placed on the system of internal controls and risk management, which is also envisaged by international practices in line with guidelines of the COSO (Committee of Sponsoring Organizations of the Treadway Commission): e.g. IC (Internal Control) and ERM (Enterprise Risk Management). Both models represent internal auditing criteria for assessing the control system and risk management. Planning audits is based on an analysis of the inherent and control risks present in different areas of the Bank's operations. In addition to planned audits, audits are also carried out at the request of the regulatory body, as are extraordinary audits and unannounced audits in the branch network for which self-assessment questionnaires (Control Self-Assessment or CSA) are used.

In 2011, the Center's auditors conducted audits in all key areas of the Bank's operations subject to risk, and audited or participated in the audits of other NLB Group companies. The audits were carried out in the areas of credit, operational, market and other risk management, and covered specific business and support functions of the Bank. The Center conducted a total of 50 audits.

The majority of the Center's other activities in 2011 related to coordinating Bank of Slovenia examinations and audits conducted by the external auditor, and to the monitoring of the implementation of recommendations, about which the Center reported regularly to the Bank's Management Board and supervisory bodies of the bank. The Center also carried out other activities related to auditing, such as consulting, training, the transfer of know-how and the supervision of and cooperation with the internal audit departments of NLB Group companies. With regard to the development of the internal audit function, the majority of time was dedicated to the introduction of new information support for monitoring the implementation of issued recommendations, while some time was also dedicated to changes to the methodologies used to plan audits and assess the control system and risk management.

Governance and supervision of NLB Group companies

The Center implements corporate governance and supervision principles within the Group in line with the *NLB Group Governance and Supervision Policy* and the *Harmonization Program*. In addition to the Center, other Group companies have 12 internal auditing departments, whose work is based on a standard umbrella act (an Internal Audit Charter for each individual NLB Group company), as well as uniform standards and work methodologies aimed at meeting the highest internal auditing standards across the entire NLB Group.

The principles of corporate governance are carried out:

- by implementing uniform standards and work methodologies at NLB Group companies;
- by transferring work methodologies and know-how to the internal audit departments of NLB Group companies;
- by conducting joint audits with the internal auditors of NLB Group companies;
- by examining the quality of the work of internal audit departments (including the use of CSAs);
- by supervising the work of internal audit departments through regular reporting;
- by providing expert assistance to representatives of the supervisory bodies of NLB Group companies; and
- by reporting on the Center's activities within the NLB Group to the management and supervisory bodies of the parent bank.

Key events

2011

January:

- NLB played a major role in the issue of new Republic of Slovenia government bonds.

March:

- A capital increase of EUR 250 million was successfully completed.
- The voluntary liquidation of NLB Nova penzija was completed.
- NLB received a temporary order from the European Commission regarding the procedure to secure state aid.

April:

- NLB received an award presented by the financial magazine Global Finance as the best Slovenian bank in 2011 for the fourteenth time in succession, and as the best Slovenian bank in the area of currency trading in 2011 for the eighth time in succession.

June:

- The rating agency Moody's downgraded the NLB Group.

July:

- A new long-term loan was raised by NLB in the amount of EUR 350 million.
- The sale of NLB Banka Sofia was successfully completed.
- NLB successfully passed the pan-European stress test.

September:

- The rating agency Moody's downgraded NLB's Slovenian government-guaranteed bonds
- The rating agency Fitch downgraded the NLB Group.
- The partial early repayment of NLB's Slovenian government-guaranteed bonds was completed in the amount of EUR 296,097,000.

December:

- The rating agency Moody's downgraded the NLB Group.
- The company Kreditni biro SISBON was established (29.7% participating interest).
- The results of the test, which indicated NLB had a capital deficit of EUR 320 million as at September 30, 2011, have been published.

2012

February:

- The rating agency Fitch downgraded NLB's Slovenian government-guaranteed bonds.





Management Report

Macroeconomic environment	32
Operations of the NLB Group in 2011	37
Segment analysis	47
Information technology	54

Macroeconomic environment

Slovenia

The global economy continued to record relatively encouraging growth in the first half of 2011. The worsening European debt crisis, however, began to hamper that growth towards the middle of the year. The indifference of European politicians' decision-making led to the gradual spread of the Greek public finance crisis to the heart of the monetary union, with an emphasis on Spain and Italy. The costs associated with the refinancing of public debt and fresh funding to cover current public spending began to rise rapidly in the aforementioned countries. The public finance difficulties soon shook the confidence of the corporate sector and households, which was quickly seen in a drop in economic activity. Ratings agencies created additional pressure by downgrading certain euro area countries. The intensity of international trade began to slow, while individual countries began with somewhat more aggressive austerity measures. Certain EMU countries had recorded negative economic growth by the final quarter of last year.

Economic trends in Slovenia tracked those of the euro area overall very closely owing to the highly open nature of the economic system, and in particular due to Slovenia's high dependence on trade within the EMU. Economic growth remained solid in the first quarter, but began to lose momentum and turned negative in the third quarter. Even more pronounced negative growth was recorded again in the final quarter of the year. The drop in GDP in the second half of the year completely wiped out previous growth, with the economy contracting by 0.2% for the year overall. Foreign demand once again played a significant role in GDP growth, as all other components of GDP recorded very weak growth or a decline. Exports were up 12.2% overall last year, despite less intense growth in the second half of the year, while year-on-year growth in imports of 11.2% was recorded.

The deteriorating economic conditions also took a toll on the labor market. Following a weak downward trend during the first half of the year,

Table 6:
Movement in key macroeconomic indicators in Slovenia and the EMU in the period 2009–2011

	2011	2010	2009
Slovenia			
GDP (real growth in %)	-0.2	1.4	-8.0
Average annual inflation rate - HICP (in %)	2.1	2.1	0.9
Registered unemployment rate - ILO (in %)	8.1	7.3	5.9
Current account in balance of payments (in % GDP)	-0.5*	-0.8	-1.5
Public debt (in GDP %)	45.1**	38.8	35.3
Budget deficit/surplus (in GDP %)	-5.5**	-5.8	-6.1
EMU			
GDP (real growth in %)	1.4	1.9	-4.2
Average annual inflation rate - HICP (in %)	2.7	1.6	0.3
Registered unemployment rate - ILO (in %)	10.2	10.1	9.6
Current account in balance of payments (in % GDP)	-0.6***	-0.4	-0.6
Public debt (in GDP %)	88.0***	85.6	79.2
Budget deficit/surplus (in GDP %)	-4.1***	-6.2	-6.4

Sources: SORS, Eurostat, IMAD, MF RS, European Commission

* IMAD estimation.

** MF RS estimation.

*** European Commission estimation.

the unemployment rate began to rise again in the second half to reach 12.1% at the end of the year. A similar trend was demonstrated by the ILO's internationally comparable surveyed unemployment rate.

Inflation rose sharply in the first part of the year, primarily as a result of energy and food prices, which rose very rapidly owing to strong emerging markets. These pressures began to abate with the slowdown in global economic growth and implementations of certain restrictive measures by emerging countries, while weak domestic consumption was unable to keep the pace of growth. Average inflation, as measured by the harmonised index of consumer prices, stood at 2.1% at the end of last year, at the same level recorded in 2010.

Special attention must be paid to the public finance situation. The debt crisis flared up last September when the impact of the peripheral debt crisis began to spread rapidly to Italy, while problems related to the high costs of borrowing spread to certain other countries. Slovenia has also become increasingly risky in the eyes of investors, which was seen in a sharp rise in the required rate of return on government bonds of all maturities. Downgrades by international

ratings agencies added fuel to the fire, while the existing situation was further aggravated by the collapse of the government and the subsequent protracted formation of a new executive branch. The ECB helped ease the situation by purchasing primarily Italian and Spanish bonds, which also led to a slight drop in the costs of new Slovenian borrowing. The general government deficit remained high at the end of 2011, standing at 5.5% of GDP, nearly the same level recorded in 2010, while public debt rose sharply to stand at 45.1% of GDP at the end of the year. Here, a constitutional change that will require the government to draft a balanced budget should be mentioned. The aforementioned measure is aimed at preventing further growth in the public debt. Nevertheless, the government will still have the power to spend more than it collects, but only in extraordinary circumstances. The measure also requires the deficit to be closed in the coming years.

Slovenian banking sector

Once again, 2011 was an exceptionally demanding year for the Slovenian banking sector. The total assets of commercial banks operating in Slovenia were down 3.0% or EUR 1.5 billion to stand at EUR 48.8 billion. This was

Illustration 1:
Real GDP growth in Slovenia and the EMU



Source: Eurostat

primarily the result of the banks' debt repayments to foreign banks, as the worsening of the European debt crisis simultaneously led to a drop in confidence on the interbank market, thereby increasing risk and the cost of new borrowing. The decline on the liability side was partially offset by government deposits and funds raised at the ECB, which at the end of the year offered an affordable source of liquidity in the form of three-year long-term refinancing operations (LTROs). Capital adequacy remained below the European average which, in addition to the high level of financial leverage in the economy overall, is one of the key factors in the 5.7% decline in the value of loans to non-financial corporations. Household demand for new loans was up slightly, with year-on-year growth amounting to 2.2%. The year-on-year decline in lending to the non-banking sector slowed slightly to -4.2%. A somewhat different picture was seen on the deposit side.

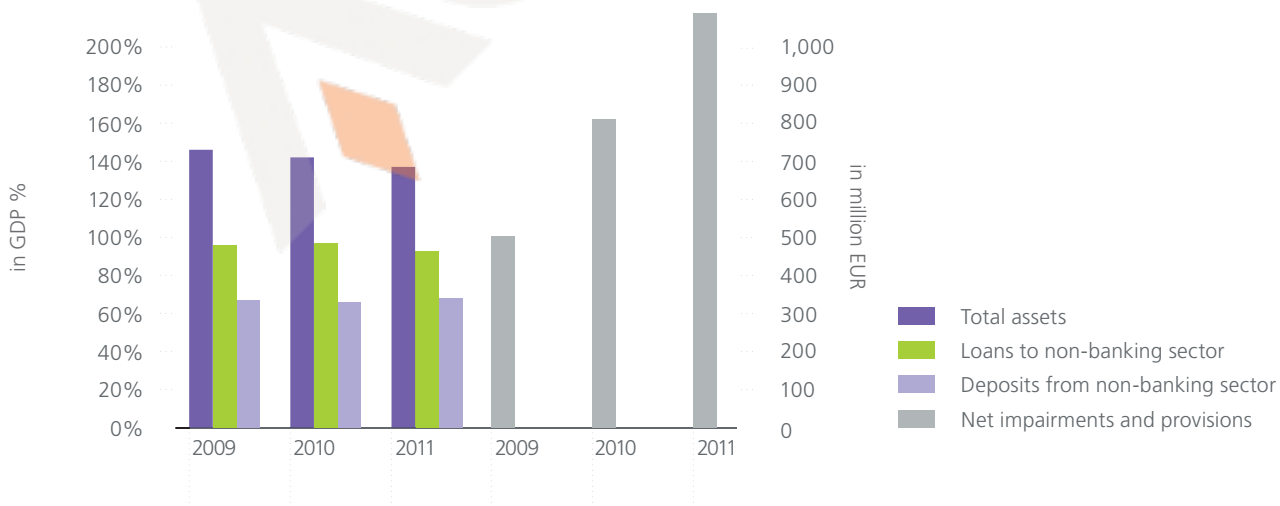
Households' confidence in the domestic banking sector has not diminished, as seen in figures regarding growth in households deposits, which were up 1.7%. Total deposits of the non-banking sector recorded growth of 2.9%, in part thanks to the government, which deposited 8.5% more at Slovenian banks than a year earlier. Non-performing loans remain a problem. Non-performing claims, i.e. those rated D and E, accounted for 6.02% of the

banks' total classified claims at the end of December, compared with 3.69% a year earlier. Claims paid in arrears accounted for 19.1% of total classified claims, while those claims paid more than 90 days in arrears accounted for 11.2%. The balance of impairments and provisions reached EUR 3.2 billion at the end of the year, while the coverage of total claims stood at 6.48%. The operations of banks continued to deteriorate somewhat compared with the end of 2010. Interest income and non-interest income were down around 2%. Despite a slight improvement in cost efficiency, the banking system overall generated a net loss of EUR 356 million under the significant impact of rising impairment and provisioning costs of EUR 1,096 million.

South-eastern Europe

Following a contraction in 2009 and moderate growth in 2010, a positive trend in economic growth continued in the Balkans last year. After being the only country of South-eastern Europe to record a contraction in economic activity in 2010, Croatia recorded low but positive GDP growth of 0.2% last year. Other countries recorded growth of more than 2%, while growth in Macedonia actually exceeded 3%. High economic growth continued in Kosovo,

Illustration 2:
Key figures for the Slovenian banking sector



Source: Bank of Slovenia

where the latest forecasts indicate that growth reached 4.0% in 2011.

In terms of the movement in consumer prices, Serbia continues to record the highest growth in prices, which rose by 4.5 percentage points more in 2011 than in 2010, with average inflation reaching 11.3%. Despite the high average inflation rate in Serbia in 2011, a sharp declining trend has been present since the middle of the year. Contributing most to the aforementioned trend were lower energy prices on global markets and weakening of cost-regulated prices and food prices. The declining trend is expected to continue in 2012 according to the Serbian central bank's forecasts. A similar trend in the inflation rate was also seen in Kosovo, where inflation averaged 7.3% in 2011. The lowest inflation in the countries of South-eastern Europe was recorded last year in Croatia and Montenegro, where it averaged 2.3% and 3.1%, respectively.

Movement in industrial output varied by individual country last year in South-eastern Europe. Bosnia and Herzegovina, Serbia and Macedonia all recorded growth in output. After recording a drop in industrial output of 4.8% in 2010, Macedonia recorded growth of 3.3% in 2011. In Serbia, growth was down slightly last year compared with 2010, when growth in

industrial output stood at 2.1%. Industrial output was down 1.2% in Croatia in 2011, the same decline that was recorded in 2010.

There was no significant change in the situation on the labor market during 2011 in these countries compared with 2010. One contributing factor is the slow economic recovery in these countries, in particular due to the fallout from the debt crisis. The unemployment rate remains highest in Kosovo and Bosnia and Herzegovina, where more than 40% of the active population is out of work. The unemployment rate is close to 32% in Macedonia, while the unemployment rate in Serbia was 23.7% according to the labor force survey from November 2011. Croatia has the lowest unemployment rate of South-eastern European countries, standing at 18.7% at the end of December and averaging 18.0% for the year.

Following the strengthening of foreign trade in 2010, this positive trend continued in the countries of South-eastern Europe in 2011. The highest growth was recorded in Macedonia, where foreign trade was up 31%. Growth in foreign trade was 20% in Serbia, and 15% in Bosnia and Herzegovina and Montenegro, but remained at the level recorded in 2010 in Croatia.

Table 7:
Movements in key macroeconomic indicators
in selected countries in South-eastern Europe
in the period 2009-2011

	GDP (real growth in %)			Inflation (in %)			Registered unemployment rate (in %)**			Current account in balance of payments (in % GDP)			Budget deficit/surplus (in % GDP)		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
Kosovo	4.0*	5.0	3.9	7.3	3.5	-2.4	45.0*	45.0	45.0	-23.8*	-17.4	-15.4	-3.3*	-2.9	-0.7
Croatia	0.2	-1.2	-6.0	2.7	1.1	2.4	18.0	17.6	14.9	-1.7	-1.1	-5.2	-5.4	-5.3	-4.5
Montenegro	2.5*	2.5	-5.7	3.5	0.5	3.4	19.9*	19.7	19.1	-22.6	-25.1	-30.1	-1.9	-3.9	-4.9
Serbia	2.2*	1.0	-3.5	11.3	6.8	8.6	22.9	20.0	16.9	-7.6	-7.8	-7.9	-4.1	-4.3	-4.3
Macedonia	3.5*	1.8	-0.9	3.0	1.6	-0.8	30.8	32.0	32.2	-5.3*	-2.9	-6.5	-2.5*	-2.5	-2.7
Bosnia and Herzegovina	3.0*	0.7	-2.9	3.7	2.1	-0.4	41.0*	40.3	40.0	-5.2*	-5.5	-6.8	-1.4*	-3.0	-5.7

* Forecast for 2011.

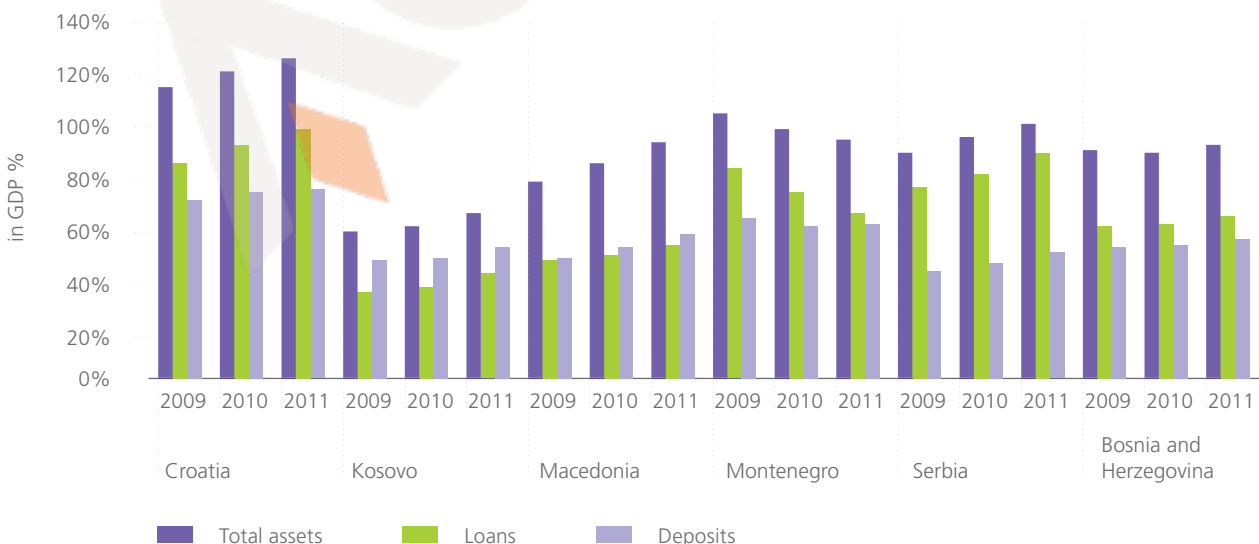
** Macedonia, Serbia and Montenegro: ILO.
Source: Central banks of individual countries

Banking sector of South-eastern Europe

Positive trends were seen in 2011 in the banking sector of the strategic markets of South-eastern Europe, where banks achieved growth in total loans and total assets, except in Montenegro. Kosovo recorded the highest growth in loans of 16.4% in nominal year-on-year terms, while banks' total assets were up 8.3% in the context of 8.5% growth in deposits. Macedonia was not far behind, with 9.9% growth in total loans and 9.2% growth in deposits, while the total assets of banks were up 9.5%. Reports also continue from Macedonia about a stable banking system with a capital adequacy (of 16.8% in the final quarter of 2011) more than two times higher than the legally prescribed minimum, which increases the banking system's ability to absorb possible negative shocks. The results of stress tests carried out by the National Bank of the

Republic of Macedonia also indicate a sufficient level of capital, and that the banking system is resistant to possible external shocks. Poorer results are reported from Montenegro, where total loans and total assets were down 11.1% and 4.6%, respectively in 2011, while deposits were up 1.5%. A positive trend in the banking sector was also seen in Bosnia and Herzegovina where, following low growth in items in 2010, total assets recorded higher growth of 3.4% in 2011, while loans and deposits were up 5.3% and 3.8%, respectively. At 4.8% in 2011, growth in the Croatian banking sector's total assets was lower than the previous year, while growth in total loans and total deposits fell to 7.1% and 1.8%, respectively. The banking sector in Serbia also faced a more difficult time in 2011 than in previous years, with growth in total assets declining to 6.1% in year-on-year terms, while growth in deposits and loans fell to 8.3% and 11.1%, respectively.

Illustration 3:
Key figures for the banking sectors of selected South-eastern Europe countries*



* Items for 2011 are calculated on the basis of GDP in 2010.
Source: Central banks of individual countries

Operations of the NLB Group in 2011

Introduction

Instability on the financial markets, the Slovenian political crisis, deteriorating credit ratings and the continuing economic crisis characterized 2011, and thus had a negative effect on the operations of the NLB Group, which generated a loss of EUR 239.2 million, while the loss generated by NLB amounted to EUR 233.2 million. Contributing most to the aforementioned losses was the deteriorating economic situation, accompanied by growth in non-performing loans, which required a high level of impairments. Results before provisions were positive and were actually better than the previous year, both at NLB and at the NLB Group level.

The activities of the NLB Group in 2011 were focused on the implementation of measures to achieve strategic objectives, with an emphasis on divestment, improving cost efficiency and portfolio management. The majority of measures are being implemented according to plans. The results are already tangible, primarily in improving cost efficiency and reducing risk-adjusted assets, while the divestment process is of a long-term nature. Four procedures were completed in 2011: the sale of NLB Banka Sofia, and the liquidation of NLB Nova Penzija, NLB Factor and Tutunska broker. The majority of activities, in particular sales, which should have been completed in 2011, were postponed to 2012 and later due to the situation on the market.

NLB did not encounter any difficulties in securing funding for ordinary operations in 2011. During the crisis, the Bank has successfully maintained liquidity reserves at pre-crisis levels. It has more than EUR 3 billion in available secondary liquidity reserves. NLB maintained an extensive portfolio of liquid securities in 2011. Funds were secured as required, without difficulty, while NLB's liquidity and position on the international markets was favorable. In 2011, NLB published more tenders for the repurchase of government-guaranteed bonds, of which EUR 495.7 million

were successfully repurchased. In July, the Bank raised a new long-term loan in the amount of EUR 350 million.

NLB Group's existing capital adequacy was unacceptable at the beginning of the year given the current crisis, leading to a capital increase in the amount of EUR 250 million in March. To that end, in March NLB received a temporary order from the European Commission regarding the procedure to secure state aid. In line with requirements, NLB submitted a restructuring program to the European Commission in September. The procedure is still pending.

In May, the Bank of Slovenia imposed a requirement on NLB to further improve its Tier 1 capital adequacy ratio to 9% and its overall capital adequacy ratio to 11.2%. For that reason, the Bank began preparations in 2011 for an additional capital increase in the approximate amount of EUR 400 million. The EBA published a requirement in December to increase the core Tier 1 capital adequacy ratio to 9%, resulting in the identification of a deficit in capital of EUR 320 million.

The ratings agencies Fitch and Moody's downgraded NLB in 2011. The reasons given included the deterioration and concentration of the credit portfolio, a modest financial and capital position and the downgrading of Republic of Slovenia.

Financial review of operations

The NLB Group recorded a loss of EUR 239.2 million in 2011, while the loss recorded by NLB amounted to EUR 233.2 million. Comprehensive income, which includes the effect of revaluation recognized in equity, was negative in the amount of EUR 282.4 million at the NLB Group level and negative in the amount of EUR 279.3 million at NLB.

Income statement

Net interest income, which accounts for the highest proportion of the NLB Group's revenue, amounted to EUR 417.3 million in 2011, down EUR 18.8 million or 4% on the previous year. The main factors in lower revenues were a contraction in operations, costlier refinancing on the wholesale markets and lower revenues from derivatives. On the other hand, the deteriorating quality of the portfolio and the increase in overdue unpaid claims have resulted in an increase in default interest.

Both deposit and lending rates rose in 2011. However, the sharper increase in the latter had a positive impact on the interest margin, which stood at 2.5% at the NLB Group level, an increase of 0.08 percentage points on the previous year. NLB's interest margin improved by 0.17 percentage points to reach 2.06%, while the banks on the markets of the former

Yugoslavia achieved higher margins (of between 3.0% and 4.7%). However, the pressure to drive down the margins on the aforementioned markets is very intense. The sharpest decline in net interest income in 2011 was recorded at non-strategic companies that are gradually contracting their operations.

The NLB Group's **net non-interest income** amounted to EUR 219.4 million in 2011, representing 34% of total revenue. The most important sources of non-interest income are fees and commissions, in particular payment transaction fees. Net fees and commissions amounted to EUR 153.5 million in 2011, down EUR 5.2 million on the previous year. Net income from payment card and ATM operations recorded the sharpest decline owing to a drop in transactions at points of sale. A drop in income from guarantees was also recorded, while income from basic accounts was up in 2011. The banks on the markets of the former

Table 8:
Key income statement items

	NLB			NLB Group		
	2011 in million EUR	2010 in million EUR	Growth	2011 in million EUR	2010 in million EUR	Growth
Net interest income	269.3	267.0	1%	417.3	436.1	-4%
Net fees and commissions	115.7	119.7	-3%	153.5	158.7	-3%
Dividend income	11.7	18.6	-37%	5.5	5.2	4%
Net income from financial transactions	25.0	1.7	1,345%	34.8	9.8	257%
Net other income	6.1	12.0	-49%	25.6	29.4	-13%
Net non-interest income	158.5	151.9	4%	219.4	203.1	8%
Total net operating income	427.8	418.9	2%	636.8	639.2	0%
Total costs	-238.8	-248.4	-4%	-380.4	-393.1	-3%
Result from equity investments in associates and joint ventures (equity method)	-	-	-	-2.8	3.9	-173%
Result before impairments and provisions	189.0	170.5	11%	253.6	250.0	1%
Impairments of financial assets AFS through equity	-35.3	-46.7	-25%	-35.3	-46.7	-24%
Credit impairments and provisions	-377.8	-267.8	41%	-480.6	-404.0	19%
Other impairments and provisions	-53.7	-62.3	-14%	-4.5	-26.3	-83%
Impairments and provisions	-466.8	-376.8	24%	-520.4	-477.0	9%
Result before tax	-277.8	-206.3	35%	-266.9	-227.1	18%
Income tax expense	44.6	22.9	95%	26.8	21.0	27%
Result of minority shareholders	-	-	-	-0.9	-3.6	-
Result after tax	-233.2	-183.4	27%	-239.2	-202.4	18%
Effects recognized through equity	-46.2	-0.7	6,747%	-43.2	-3.8	1,030%
Gross effects recognized through equity	-34.4	-0.5	6,718%	-31.9	-4.3	646%
Tax	11.7	0.2	6,836%	11.4	-0.4	-2,647%
Comprehensive income	-279.4	-184.1	52%	-282.4	-206.2	37%

Yugoslavia pay a deposit guarantee fee through a system of reciprocal deposit schemes. Fees totalling EUR 7.2 million were paid in 2011 for that purpose.

The NLB Group received EUR 5.5 million in dividends in 2011.

Income from financial transactions totalled EUR 34.8 million in 2011. NLB recorded a gain of EUR 41.5 million (EUR 33.2 million after taxes) in 2011 from the recall of a discounted hybrid instrument, while the NLB Group generated a loss in securities trading.

Income from securities trading has been quite volatile in recent years owing to the uncertainty on the capital markets. However, the NLB Group's portfolio of marketable securities accounts for merely 1% of its total assets. Exposure to risk from such transactions is thus relatively low. The securities portfolio of the banking book primarily comprises securities held as secondary liquidity reserves. Exposure to the so-called PIIGS countries, with whom a loss of EUR 5.7 million was generated, was reduced by EUR 147 million in 2011. Exposure to the countries of the aforementioned group was just EUR 23 million at the end of 2011, with the value of Greek bonds having already been impaired to 50%. Thus, net exposure to the PIIGS countries is EUR 21.5 million.

Income from the purchase and sale of foreign currencies remains a stable source of net income from financial transactions. Foreign currency transactions generated income of EUR 14.1 million in 2011, an increase of EUR 1.3 million on the previous year.

Other net income amounted to EUR 25.6 million. Extraordinary events, such as a balance sheet tax at NLB (– EUR 3.1 million), the valuation of real estate held for sale and the effects of the sale of NLB Banka Sofia (+ EUR 4 million)¹, affected the level of other net income. The majority of steady income in this category is generated by the sale of IT services, the provision of cash operation services for other banks and rental income.

Activities aimed at the rationalization of operations and cost control have resulted in a decline in costs for several consecutive years. **Operating costs including amortization and depreciation** amounted to EUR 380.4 million at

the NLB Group in 2011, down 3% on the previous year. Labor costs, building maintenance and IT costs recorded the sharpest declines. Amortization and depreciation costs are also being reduced gradually through the optimization of investments.

The cost-to-income ratio (CIR) improved significantly to stand at 59.7% for the NLB Group and 55.8% for NLB.

The deepening crisis in the real sector was reflected in the continuing deterioration in the quality of the credit portfolio. The balance of non-performing loans (NPL) has increased in the context of an overall decline in the investment portfolio, i.e. in the number of loans. The balance of NPLs stood at EUR 3 billion at the end of 2011, an increase of EUR 843 million on the end of the previous year, while the proportion of NPLs was up 6.8 percentage points to stand at 21.3%.

Owing to the high growth in NPLs, the NLB Group created additional **loan impairments and provisions** of EUR 480.6 million in 2011, a significant increase on the already high impairments created the previous year. The majority of impairments and provisions were created for customers from the sectors of construction, manufacturing, services and trade. Despite the high level of impairments, their growth was slower than the growth in NPLs. The coverage of non-performing claims by provisions (i.e. the coverage ratio) was therefore down 2.9 percentage points in 2011 to stand at 59.1%, while the coverage ratio for the entire portfolio was up 3.1 percentage points to stand at 10.7%. The "cost of risk" indicator, which is measured as the ratio of impairments of loans to the average balance of loans during the year, was high in the NLB Group at 315 basis points, an increase of 60 basis points on 2010.

In addition to impairments and provisions for credit risk, available-for-sale securities were also impaired through profit or loss in the amount of EUR 35.3 million in 2011 due to declining market values. The majority of the aforementioned impairments relate to securities received as collateral.

Debt securities were also impaired through equity in the amount of EUR 36.0 million (90% of the aforementioned amount relates to the impairment of Slovenian government bonds due to the downgrading of Slovenia, while equity

¹ Only the effect of the transaction (i.e. the purchase price) is taken into account, excluding indirect effects.

securities were impaired in the amount of EUR 12.3 million, which is seen in the broader results of the NLB Group.

The negative effects of the operations of subsidiaries are increasingly reflected in the operating results of the parent bank. In 2011, NLB impaired investments in subsidiaries (capital investments and loans) in the total amount of EUR 134.0 million, which represents more than half of the loss generated by the Bank.

The **contribution of associates and joint ventures** was negative in 2011 owing to the loss generated by Banka Celje.

Statement of financial position

The scope of operations in non-strategic activities (which are in the process of divestment) is declining in line with strategic objectives, while the scope of operations in the NLB Group's strategic activities is also declining in line with

Table 9:
Key items from the statement of financial position

	NLB			NLB Group		
	31. 12. 2011 in million EUR	31. 12. 2010 in million EUR	Growth	31. 12. 2011 in million EUR	31. 12. 2010 in million EUR	Growth
ASSETS						
Cash and balances with Central Bank	305.0	204.4	49%	833.9	764.9	9%
Loans and advances to banks	594.6	570.2	4%	783.8	850.2	-8%
Loans to non-banking sector	8,461.8	9,199.8	-8%	10,748.7	11,879.7	-10%
Gross loans	9,515.2	9,945.2	-4%	12,313.8	13,054.4	-6%
- corporate	7,275.4	7,609.0	-4%	9,067.6	9,693.2	-6%
- households	2,040.0	2,122.1	-4%	2,936.6	2,995.4	-2%
- state	199.9	214.2	-7%	309.6	365.8	-15%
Impairments	-1,053.5	-745.4	41%	-1,565.1	-1,174.7	33%
Financial assets (securities & derivatives)	2,675.1	2,944.7	-9%	3,139.4	3,397.3	-8%
- Held for trading	179.5	155.2	16%	179.7	157.7	14%
- AFS, held to maturity	2,495.6	2,789.4	-11%	2,959.7	3,239.6	-9%
Investments in associates and JV	548.0	533.1	3%	105.3	111.8	-6%
Property and equipment	149.1	158.7	-6%	387.2	398.7	-3%
Intangible assets	62.4	73.5	-15%	130.3	146.5	-11%
Other assets	184.0	145.8	26%	316.2	338.9	-7%
Total assets	12,980.0	13,830.2	-6%	16,444.8	17,888.0	-8%
LIABILITIES						
Deposits from non-banking sector	7,562.0	7,663.7	-1%	10,195.8	10,387.0	-2%
- corporate	1,448.9	1,504.6	-4%	2,391.1	2,556.4	-6%
- households	5,168.3	5,293.4	-2%	6,647.1	6,709.1	-1%
- state	944.8	865.7	9%	1,157.5	1,121.5	3%
Deposits from banks	119.0	179.4	-34%	140.9	227.0	-38%
Debt securities in issue	1,235.0	1,793.5	-31%	1,232.9	1,804.0	-32%
Borrowings	2,053.9	2,086.5	-2%	2,722.6	3,142.2	-13%
Other liabilities	302.4	272.5	11%	371.4	394.8	-6%
Subordinated debt	750.9	848.4	-11%	783.6	901.5	-13%
Equity	956.9	986.2	-3%	976.1	1,011.1	-3%
Shareholders equity (including minority interest)	-	-	-	997.7	1,031.7	-3%
Total liabilities	12,980.0	13,830.2	-6%	16,444.8	17,888.0	-8%

the objective of reducing risk-adjusted items. The NLB Group's **total assets** stood at EUR 16,444.8 million at the end of 2011, down 8% on the end of the previous year. At EUR 12,980.0 million, NLB's total assets were down 6%.

The consequences of the crisis in the real sector were reflected in the deterioration of the NLB Group's credit portfolio and in the need to reschedule loans in the sectors hit hardest by the recession. The NLB Group responded to the conditions with a more conservative lending policy, and by tightening project feasibility and loan approval criteria, and by requiring higher-quality collateral. In addition, concerted efforts to reduce the scope of operations in non-strategic segments began, in particular in the factoring and real estate leasing segments.

Gross loans to the non-banking sector amounted to EUR 12,313.8 million in 2011, a decrease of EUR 740.6 million on the end of 2010, while net loans to the non-banking sector were down EUR 1,131.0 million owing to higher impairment costs. The stock of loans was down in all segments, most notably in corporate loans.

Deposits from the non-banking sector amounted to EUR 10,195.8 million at the end of 2011, a decrease of EUR 191.2 million on the end of 2010. Government deposits were up slightly while household deposits and, in particular, corporate deposits were down.

The coverage of loans to the non-banking sector by deposits from the non-banking sector

(LTD ratio) stood at 105% at the end of 2011 at the NLB Group, a decrease of 8.9 percentage points on the previous year. A significant decline in loans to the non-banking sector contributed to the improvement in the aforementioned indicator.

The volume of borrowing on the wholesale markets in 2011 was down more than EUR 1 billion on the previous year. Funds for repayment were secured by reducing liquidity reserves in the form of bank deposits and the securities portfolio. Some long-term sources were rolled over, while NLB also raised a syndicated loan in 2011 in the amount of EUR 350 million and received additional long-term funds in the amount of EUR 250 million in the final quarter of the year via a new ECB instrument. LHB Internationale Handelsbank secured ECB funding throughout 2011, its borrowings at the ECB having stood at EUR 60 million at the end of the year. Several partial early repurchases of government-backed NLB bonds were carried out in the second half of the year in the total amount of EUR 495.7 million, while a subordinated hybrid instrument in the amount of EUR 100 million was recalled at the end of the year.

Capital and capital adequacy

The NLB Group's **regulatory capital** stood at EUR 1,500.0 million at the end of 2011, down EUR 95.3 million on the end of the previous year. All three capital adequacy ratios improved: the Group's overall capital adequacy ratio stood

Illustration 4: Loans to non-banking sector (net)

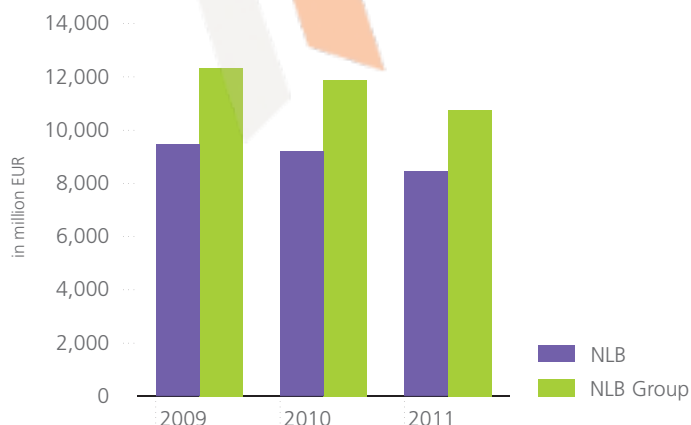
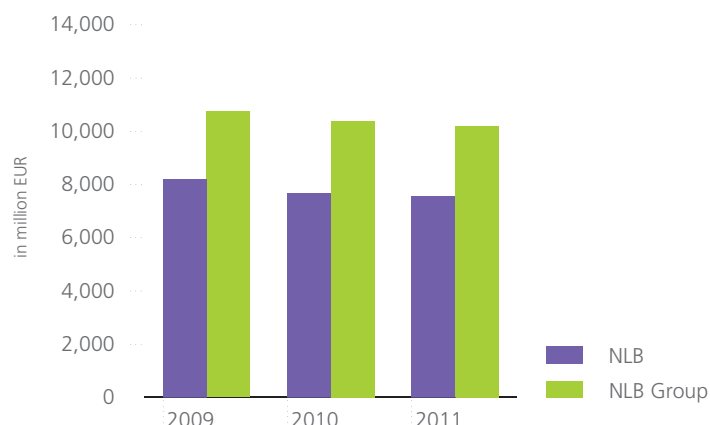


Illustration 5: Deposits from non-banking sector



at 11.1%, its Tier 1 ratio at 7.2% and its core Tier 1 ratio, representing the highest-quality Tier 1 capital, stood at 6.3%. The main factors in the improving capital adequacy ratios were the increase in NLB's capital in March 2011 in the amount of EUR 250 million and the decrease in capital requirements for credit risk (of EUR 147.6 million), while the loss generated by the NLB Group in 2011 and the recall of a hybrid instrument in the amount of EUR 100 million had a negative impact on capital.

In 2011, NLB participated in the pan-European stress test conducted by the European Banking

Authority (EBA), in cooperation with national supervisory bodies (locally, the Bank of Slovenia), the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB). Testing was carried out on the basis of the EBA's common methodology and key common assumptions. The test was used to assess the core Tier 1 capital adequacy ratio of an individual bank.

Taking into account the prescribed methodology and the requirement for a core Tier I ratio of 9%, the calculation showed that NLB had a capital deficit of EUR 320 million as at September 30,

Illustration 6:
Loans to non-banking sector / deposits
from non-banking sector (LTD)

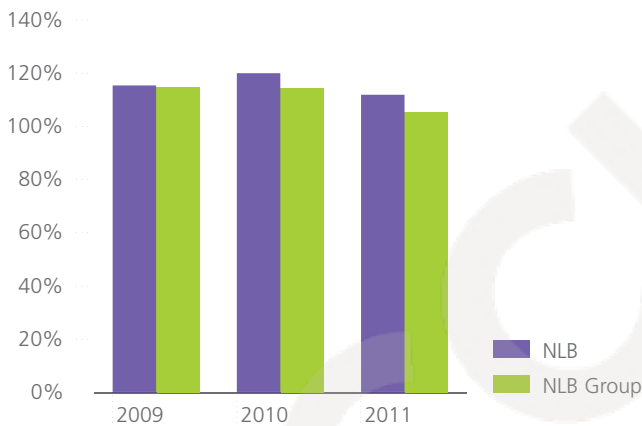


Illustration 7:
Capital adequacy

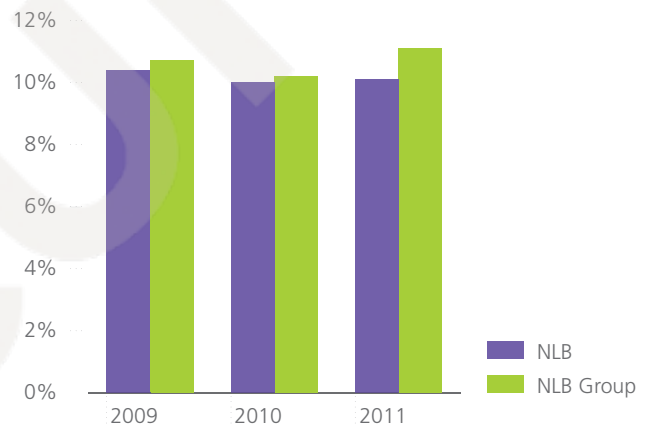


Illustration 8:
Tier 1

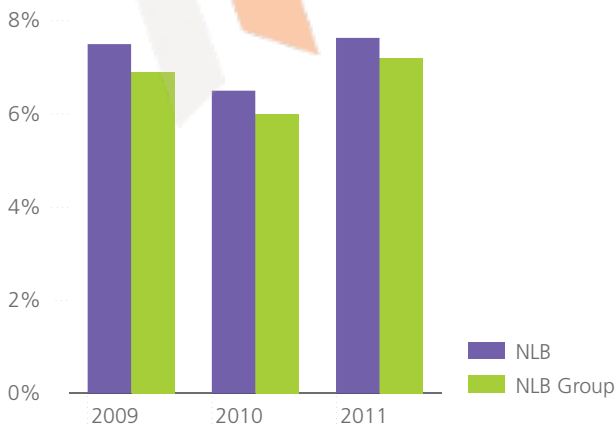
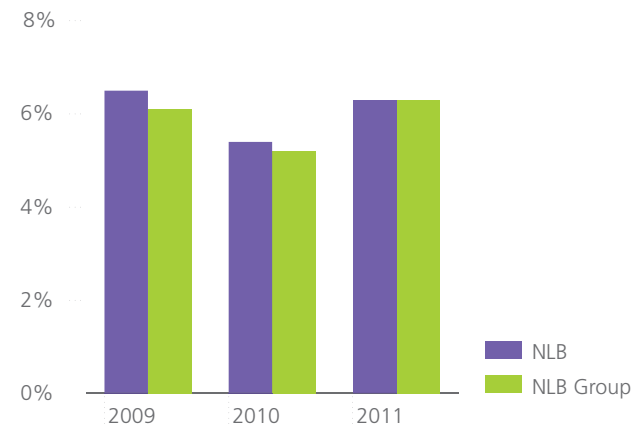


Illustration 9:
Core Tier 1



2011, which it must rectify by the end of June 2012. The aforementioned deficit is covered by the additional capital increase proposed by the Bank's Management Board and Supervisory Board. If the capital increase is not carried out by the prescribed deadline, NLB will make use of other measures in the scope of agreed mechanisms at the EU level.

Portfolio

Following initial positive trends of an economic recovery in the first half of 2011, those trends reversed and turned negative during the second half of the year. This was followed by the continuing trend of deterioration in the quality of the credit portfolio. Non-performing loans rose in 2011, both in terms of value and structure. The quality of the portfolio deteriorated most in the

sectors of construction, financial holdings and manufacturing, while there were no significant defaults in the export-oriented segment of the economy.

At the end of the year, the amount of the NLB Group's non-performing loans stood at EUR 3,008 million or 21.25% of all loans. Non-performing loans are defined as all claims against D- and E-rated customers, and claims against A-, B- and C-rated customers that are more than 90 days past due.

The reasons for the deterioration of the portfolio lie in the growing number of overdue unpaid claims and the deteriorating economic position of companies that were reclassified to lower credit ratings as a result. The majority of non-performing loans derive from claims against D- and E-rated customers, while only 3.2% of

Table 10:
Movement in the high-risk portion of the portfolio and provisions

in million EUR	NLB			NLB Group		
	31. 12. 2011	31. 12. 2010	31. 12. 2009	31. 12. 2011	31. 12. 2010	31. 12. 2009
Risk portfolio	14,086.3	14,707.9	15,077.1	17,866.9	18,745.0	18,607.4
Impairments and provisions for risk portfolio	1,299.5	885.1	575.6	1,904.3	1,426.1	1,033.5
Coverage ratio of risk portfolio	9.2%	6.0%	3.8%	10.7%	7.6%	5.6%
Credit portfolio	10,483.3	10,725.8	11,323.3	14,156.1	14,942.1	15,031.8
Impairments and provisions for credit portfolio	1,191.9	824.9	537.3	1,776.7	1,341.4	978.3
Coverage ratio of credit portfolio	11.4%	7.7%	4.8%	12.6%	9.0%	6.5%
Non-performing loans (NPL)	1,873.7	1,078.5	508.1	3,007.8	2,164.7	1,346.5
Non-performing loans (NPL) / total loans	17.9%	10.1%	4.5%	21.3%	14.5%	9.0%
Coverage ratio of NPL*	63.6%	76.5%	106.0%	59.1%	62.0%	73.0%

* Gross portfolio without EIR effects.

Table 11:
Structure of the portfolio by credit rating

Rating	NLB						NLB Group					
	31. 12. 2011		31. 12. 2010		31. 12. 2009		31. 12. 2011		31. 12. 2010		31. 12. 2009	
	in million EUR	in %	in million EUR	in %	in million EUR	in %	in million EUR	in %	in million EUR	in %	in million EUR	in %
A	7,508	53.30	8,502	57.81	9,680	64.20	9,895	55.38	10,749	57.35	10,691	57.46
B	2,649	18.81	3,387	23.03	3,749	24.87	2,697	15.09	3,521	18.78	4,716	25.34
C	1,856	13.18	1,713	11.65	1,190	7.89	2,103	11.77	2,151	11.47	1,962	10.55
D	931	6.61	747	5.08	334	2.21	1,410	7.89	1,485	7.92	722	3.88
E	1,142	8.11	359	2.44	124	0.82	1,755	9.82	836	4.46	464	2.50
Undefined	-	-	-	-	-	-	6	0.04	2	0.01	51	0.28
Total	14,086	100.00	14,708	100.00	15,078	100.00	17,867	100.00	18,745	100.00	18,607	100.00

non-performing loans is the result of claims against A-, B- and C-rated customers that are more than 90 days past due.

In terms of debtor segment, the corporate sector accounts for the highest proportion (59.2%), followed by households (17.2%), the government (15.9%) and banks (7.7%). The structure is relatively stable, while exposure in all segments has declined in terms of value. In terms of the quality of the portfolio, the most significant deterioration can be seen in the corporate sector.

The majority of the NLB Group's portfolio is accounted for by domestic customers, followed by customers from Bosnia and Herzegovina (6%) and Macedonia (5.8%). Exposure to strategic markets amounts to 79%. The proportion of exposure to strategic markets was up compared with 2010, as the result of the active implementation of the NLB Group's strategy to withdraw from non-strategic markets. The most important non-strategic markets are Serbia (5.1%), Croatia (3.2%), Germany (2.8%) and Austria (1.9%).

The NLB Group responded to the deterioration of its portfolio by creating additional loan impairments, which was not as intense as the growth in non-performing loans due to the collateralization of investments. The coverage of non-performing loans by provisions was therefore down 2.9 percentage points to stand at 59.1% in 2011. In terms of individual activity of the NLB Group, the coverage in the banking segment is above-average at 62%, while coverage in the non-banking segment is significantly lower. The coverage in factoring is 50%, taking into account the fact that the right of recourse applies to factoring claims. The

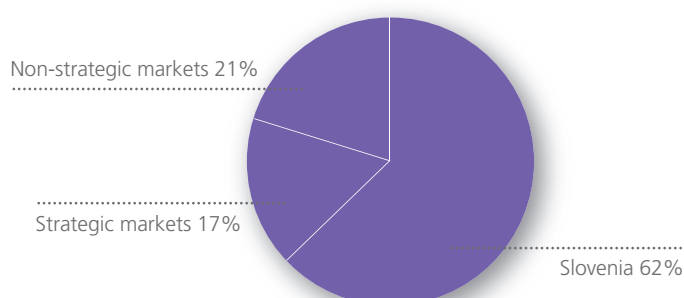
coverage in leasing is even lower at 46%. The majority of transactions are collateralized by the subject of the lease, which remains the property of the leasing company and can be redeemed significantly faster and more effectively. The need for provisions is therefore lower.

Primarily individual provisions were up in 2011 (by EUR 502 million), while collective provisions for households and corporates were down (by EUR 46 million). The aforementioned decline is the result of a reduction in the percentage of collective provisions for E-rated retail customers and the elimination of the safety buffer for the probability of default ratio, which was introduced two years ago when transition matrices did not yet appropriately reflect the risks associated with the portfolio. The transition matrices have deteriorated significantly after two years of poor economic conditions. The use of a safety buffer is therefore no longer required, as confirmed by the Bank of Slovenia.

Liquidity management

The NLB Group has at its disposal primary and secondary reserves to cover its maturing liabilities. Primary liquidity reserves must be available very soon following the realization of stress test scenarios (immediately, i.e. within one week). This is the ability to generate and secure rapidly realizable and highly liquid assets in the short term. The majority of primary liquidity reserves is represented by cash, funds on settlement accounts at central banks and sight and short-term deposits at other banks. The Bank's secondary liquidity reserves are of exceptional importance in meeting liquidity needs and complying with regulations governing

Illustration 10:
Geographical structure of the NLB Group's portfolio



this area. These mainly comprise prime debt securities issued by EU countries and eligible for ECB transactions, while one third of secondary liquidity reserves are accounted for by loans that meet ECB eligibility criteria in full. ECB eligible loans include loans secured by a government guarantee and loans to government agencies.

The Bank includes prime securities and ECB eligible loans, on the basis of which liquid funds can be secured on the market or through the central bank, in its secondary liquidity reserves. The target amount of secondary liquidity reserves depends on the assessed liquidity needs of the Bank, one of the key criteria being the liquidity needs of the NLB Group.

The balance of ECB eligible loans was EUR 740 million at the end of 2011. The total balance of secondary liquidity reserves stood at EUR 5,270 million as at December 31, 2011. ECB eligible loans include loans secured by a government guarantee and loans to government agencies.

The balance of debt securities in the banking book was EUR 2,857 million as at December 31, 2011, a decrease of around EUR 200 million on the end of 2010. Government securities accounted for 82.8% of the aforementioned amount, followed by government-guaranteed bank bonds at 8.2%, bank and corporate securities at 5.95% and bonds issued by multilateral institutions at 1.85%. The Bank has no structured securities in its banking book. The largest proportion of investments in securities is accounted for by Slovenian government securities (31.2%), followed by French securities (11.8%), Belgian securities (10.3%), Dutch

securities (10.3%), Austrian securities (6.2%), German government securities (3.8%) and non-government securities with a Republic of Slovenia guarantee (10.8%). Government securities from Portugal, Ireland, Italy, Greece and Spain accounted for 6% of the securities portfolio at the end of the year. Due to the short average maturity in this group, nearly 60% of these investments will mature in 2012.

Investments in the PIIGS countries were down sharply in 2011, by EUR 148.5 million. The scope of deposits by the Ministry of Finance was down, while investments in Slovenian government securities were up considerably. A total of 68% of securities in the banking book have a credit rating of AA, while 28% have a rating of AAA.

EUR 1,841 million or 71% of securities were classified as *available-for-sale*, while EUR 760 million or 29% were classified as *held-to-maturity*. The modified portfolio duration of the banking book rose from 1.4 years last year to 1.96 years, taking into account interest rate derivatives used to hedge the securities portfolio.

Funding

The market was mainly open to the largest and regular issuers, well-known to investors. Issuers from weaker economies and those less known to investors faced considerably more difficulties in accessing new sources of funding. The adverse conditions on the financial markets also resulted in rising premiums on new sources of funding.

Despite the extremely demanding conditions affecting the financial markets, NLB successfully

Table 12:
Structure of liquidity reserves

in million EUR	NLB		NLB Group	
	31. 12. 2011	31. 12. 2010	31. 12. 2011	31. 12. 2010
Primary	667	372	1,470	1,434
Cash	86	93	165	166
Settlement account at the central bank	113	102	543	603
Sight and short-term deposits at banks	468	178	762	665
Secondary	3,123	3,508	3,623	3,923
Securities in the banking book	2,375	2,708	2,834	3,066
Securities in the trading book	48	16	49	16
Loans	700	785	740	841
Shares	175	250	177	233
Total	3,965	4,130	5,270	5,590

raised a new syndicated loan in the amount of EUR 350 million with a maturity of two years. The transaction, organized by a consortium of eight international banking groups, was aimed at refinancing and the financing of the NLB Group's operations.

NLB has worked for several years with multilateral financial institutions and development banks in securing long-term sources of funding. These institutions primarily provide long-term, specific purpose credit lines (with maturities of up to 15 years), which NLB uses to finance companies and public sector entities and thus stimulates the technological and sustained development of the Slovenian economy. In 2011, NLB successfully rolled over long-term sources from SID banka in the total amount of EUR 166.3 million.

The Bank used the funds raised through credit lines from multilateral financial institutions and development banks to finance 464 projects in Slovenia in 2011. The funds were primarily used to purchase property, plant and equipment, land, intangible assets and operating assets.

NLB secured additional liquidity by borrowing from KAD in the form of a note in the amount of EUR 20 million with a maturity of four years, and via instruments of the ECB, where it participated in three-year, long-term refinancing operations in the amount of EUR 250 million. In addition to NLB, LHB Internationale Handelsbank also made use of ECB instruments in 2011 in the form of long-term refinancing in the amount of EUR 60 million.

International financial institutions, in particular the European Fund for Southeast Europe (EFSE), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB) and SID banka, once again played a key role in financing NLB Group companies in 2011. NLB Group companies borrowed a total of EUR 58.48 million from international financial institutions in 2011, of which EUR 10 million was from the EFSE, EUR 5.48 million from the CEB and EUR 4 million from the EBRD. In the scope of borrowing from international financial institutions in 2011, short-term borrowings in the form of two certificates of deposit in the amounts of EUR 6 million and EUR 3 million were secured from SID banka.

In addition and as the result of successful cooperation with international financial institutions, NLB signed an agreement in June on the raising of a long-term loan from the EBRD in the amount of EUR 30 million. The funds from the aforementioned loan are earmarked for the financing of the projects of SMEs and for NLB Group banks in SE Europe to finance their customers' projects in accordance with the relevant master agreement.

In addition to borrowing from international financial institutions, NLB Group companies also borrowed from commercial banks in Slovenia and abroad in 2011. NLB Group companies raised new loans in the amount of EUR 26 million in 2011, and agreed on the rollover of existing bilateral loans in the amount of EUR 152.9 million. In total, Group companies borrowed EUR 178.9 million in 2011.

Table 13:
Exposure to the countries of PIIGS group

in million EUR	31. 12. 2011	31. 12. 2010	Difference
Greece	1.5*	20.0	-18.5
Ireland	10.0	15.0	-5.0
Italy	10.0	95.0	-85.0
Spain	0.0	25.0	-25.0
Portugal	0.0	15.0	-15.0
Total	21.5	170.0	-148.5

Segment analysis

The NLB Group monitors its operations by various segments that are defined in accordance with its strategy and the internal organizational structure of the NLB Group. The NLB Group's operations are monitored to the level of pre-tax profit for the following segments:

- retail banking in Slovenia, which includes operations with individuals, SMEs and sole traders included in NLB d.d.'s business network, and asset management via NLB Skladi;
- corporate banking in Slovenia, which includes NLB's operations with SMEs;
- financial markets in Slovenia, which include all treasury operations, NLB d.d.'s transactions with financial institutions and investment banking;
- strategic foreign markets, which include the NLB Group's complete operations on the strategic markets of Bosnia and Herzegovina, Montenegro, Kosovo and Macedonia, except leasing companies; and
- non-strategic markets and activities, which include the NLB Group's complete operations on the non-strategic markets of Croatia, Serbia, Germany, Switzerland and the Czech Republic and all leasing companies. Segment results also include the operating results of those companies included in the divestment strategy in 2011 (e.g. NLB Banka Sofia, NLB Factor Bratislava, and NLB Nova penzija Belgrade).
- The remainder includes the NLB Group's investments in associates, the operating results of the NLB Group's non-financial corporations and costs that cannot be allocated to individual segments.

Table 14:
Operating results of the NLB Group by segment
for 2011

in thousand EUR	Corporate banking (Slovenia)	Retail banking (Slovenia)	Financial markets (Slovenia)	Strategic foreign markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	148,818	236,033	46,098	136,445	72,120	6,859	-	646,373
Net income from external customers	229,041	170,416	-10,925	141,638	103,500	2,798	-	636,468
Intersegment net income	-80,223	65,617	57,023	-5,193	-31,380	4,061	-	9,905
Total net interest income	125,103	130,530	13,878	100,890	46,765	171	-	417,337
Net interest income from external customers	209,106	63,562	-43,145	105,985	81,828	1	-	417,337
Intersegment net interest income	-84,003	66,968	57,023	-5,095	-35,063	170	-	0
Administrative costs	-26,184	-160,573	-15,334	-70,107	-55,157	-7,234	-	-334,589
Depreciation and amortization	-3,663	-24,638	-1,969	-13,597	-10,597	-951	-	-55,415
Reportable segment profit / loss before impairment charge	118,971	50,822	28,795	52,741	6,366	-1,326	-	256,369
Share of profits of associates and joint ventures	-	-	-	-	-	-2,818	-	-2,818
Impairment and provisions charge	-332,827	12,485	-13,905	-38,271	-147,967	82	-	-520,403
Profit / loss before income tax	-213,856	63,307	14,890	14,470	-141,601	-4,062	-	-266,852
Non-controlling interests	-	-	-	1,684	-2,569	-	-	-885
Owners of the parent	-213,856	63,307	14,890	12,786	-139,032	-4,062	-	-265,967
Income tax	-	-	-	-	-	-	26,769	26,769
Profit / loss for the year								-239,198

Corporate banking in Slovenia

The negative effects of the financial crisis, which are reflected in the operations of the NLB Group as a deterioration in the quality of the portfolio, are even more evident in the operating results of the corporate banking segment, which generated a loss of EUR 213.9 million in 2011, an increase of 70% on the loss generated the previous year. The main reason for the aforementioned loss is the level of provisions created. Additional impairments in the amount of EUR 332.8 million were created in this segment in 2011, representing two thirds of all impairments and provisions created within the NLB Group.

Contributing further to the loss generated was the impairment of equity securities received by NLB in the redemption of collateral. A total of EUR 27.4 million in impairments were created in 2011 owing to the fall in share prices.

Operating results prior to provisions were also down in 2011. The main reason was a decline in interest income resulting from a contraction in operations. Total assets in this segment were down in 2011 as the result of low economic

activity and the active reduction of risk-weighted assets, which is one of the key elements in the implementation of the NLB Group's strategy.

The volume of loans to the non-banking sector in this segment was down EUR 238 million or 4% on the previous year. The maturity structure of the portfolio remains unchanged, with long-term loans accounting for 69% of the portfolio.

The volume of guarantee transactions was down slightly on the previous year, as was the balance of the guarantee portfolio, which is primarily linked to the situation in the construction sector. Letters of credit and collection transactions remained at the level recorded in 2010. NLB noted a slight fall in the number of export letters of credit and collection transactions compared with the previous year, while the amounts of individual transactions were up.

The trend of increased use of special instruments continues, as does the stagnation in the volume of international check transactions, which confirms the prevailing global trend.

Table 15:
Operating results of the NLB Group by segment
for 2010

in thousand EUR	Corporate banking (Slovenia)	Retail banking (Slovenia)	Financial markets (Slovenia)	Strategic foreign markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	159,621	225,042	28,316	133,352	98,310	5,567	-	650,208
Net income from external customers	184,970	183,733	-27,629	139,750	132,225	1,535	-	614,584
Intersegment net income	-25,349	41,309	55,945	-6,398	-33,915	4,032	-	35,624
Total net interest income	136,007	113,950	16,993	95,831	73,154	163	-	436,098
Net interest income from external customers	195,772	71,063	-38,952	102,504	105,642	69	-	436,098
Intersegment net interest income	-59,765	42,887	55,945	-6,673	-32,488	94	-	0
Administrative costs	-28,117	-168,588	-17,818	-68,186	-55,696	-8,419	-	-346,824
Depreciation and amortization	-3,673	-25,229	-2,300	-13,100	-12,318	-609	-	-57,229
Reportable segment profit / loss before impairment charge	127,831	31,225	8,198	52,066	30,296	-3,461	-	246,155
Share of profits of associates and joint ventures	-	-	-	-	-	3,856	-	3,856
Impairment and provisions charge	-253,705	-52,849	-5,998	-38,519	-120,542	-5,363	-	-476,976
Profit / loss before income tax	-125,874	-21,624	2,200	13,547	-90,246	-4,968	-	-226,965
Non-controlling interests	-	-	-	1,615	-5,260	-	-	-3,645
Owners of the parent	-125,874	-21,624	2,200	11,932	-84,986	-4,968	-	-223,320
Income tax	-	-	-	-	-	-	21,031	21,031
Profit / loss for the year								-202,289

The **deposit** portfolio was up EUR 75 million or 5.5% in value terms at the end of 2011 compared with the previous year to stand at EUR 1,445 million.

Bank financing via the regular rollover of maturing, primarily short-term loans, is a sign of unstable operations for companies. The weak liquidity position of companies and payment indiscipline hinder the greater flow of funds between companies. Payment indiscipline has hit suppliers and manufacturers the hardest. The effects of new legislation governing payment indiscipline and the netting of claims and liabilities may have some impact on corporate balance sheets, but are not enough to completely solve the problem of an inappropriate structure of corporate financing and the additional flow of financing. The corporate banking portfolios of all commercial banks are faced with the serious problem of unpaid overdue claims for the first time in a long time.

Given the current situation, NLB defined corporate lending guidelines in 2011 in terms of activities, customer segments, target markets and lending terms, taking into account the guidelines set out in *NLB's Strategy for the period 2010 to 2015* regarding growth and restrictions.

In 2011, NLB continued to upgrade its comprehensive customer management system for shared NLB Group customers. The Bank has improved its investment approval process, taken a proactive approach to credit risk management, and introduced new approaches to identifying, handling and monitoring problematic customers. It has thus improved the conditions for achieving synergistic effects at the NLB Group level on strategic markets, which ensure support for Slovenia's traditionally export-oriented economy.

In the scope of activities relating to business accounts, NLB introduced a new type of account, the NLB Fiduciary Account for real estate companies. Development activities relating to corporate payment transactions focused primarily on ensuring the implementation of SEPA scheme rules of operation.

NLB offered a number of new features to NLB Proklik users in 2011, including a new method for receiving all types of bank notifications and the termination of sending notifications by post

and the implementation of payment transactions according to SEPA standards, such as transactions using the new universal payment order, the exchange of SEPA direct debits and SEPA mass payments. NLB was also included in the interbank system for the exchange of e-invoices via the company Bankart. With the NLB e-invoice, the Bank introduced an upgraded standard for the virtual envelopes in which e-invoices and other electronic documents travel through the system.

NLB's only tool in the direct financing of strategic foreign customers is the restructuring of existing loans, as it only approved new loans, primarily aimed at refinancing operating assets, in exceptional cases due to limited financial resources and the uncertain economic conditions.

NLB focused on the markets where export-oriented customers operate in the financing and insuring of export transactions. NLB follows the market flows in these countries in its financing of export transactions.

In the financing of larger, long-term projects on foreign markets, NLB works with SID banka, which insures transactions against commercial and non-commercial risks. The Bank mainly cooperates with SID banka in the financing of exports to Russia and other markets of the former Soviet Union.

Retail banking in Slovenia

The Slovenian retail banking segment generated a profit of EUR 63.3 million in 2011, compared with a loss of EUR 21.6 million generated by the same segment in 2010.

The main reason for the improved results in 2011 was the creation of fewer additional provisions. Additional provisions of EUR 14.2 million were created in 2011, 73% less than in 2010. Impairments totalling EUR 26.6 million and relating to the portfolio of retail customers were also released in 2011 owing to methodological changes. Those methodological changes relate to the elimination of the mark-up due to the calculation of new matrices and owing to a reduction in the percentage applied to E-rated customers. The net positive effect on operating results was EUR 12.5 million. The operating

results of the retail segment were positive, even without the effects of the release of impairments.

Interest income was up 15% in 2011 relative to 2010, primarily as the result of a rise in the interest margin, as the scope of both lending and deposit operations contracted. The value of loans in the retail banking segment was down EUR 277 million or 9% in 2011 relative to the previous year, to stand at EUR 2,883 million. Long-term loans account for the majority of the portfolio. Contributing most to the decline in lending activity was the rising costs of sources of financing and reduced borrowing activity on the part of households. The value of deposits was down EUR 179 million or 3% compared with the previous year, to stand at EUR 6,037 million.

Also contributing to the improved results were cost reduction measures, while a drop was seen in non-interest income, which is primarily linked to a decline in the number of payment transactions and the scope of payment card operations, as the result of lower domestic economic activity. NLB partially neutralized the drop in revenue through price policy measures related to personal accounts and payment card operations.

The total value of assets under management stood at EUR 299.3 million at the end of 2011, a drop of 12.3% in year-on-year terms.

Despite the declining scope of transactions in all segments, NLB remains the leading bank with the highest market shares of traditional banking services. A new retail banking strategy was adopted in 2011, which envisages that NLB will continue to position itself in the future as the leading provider of comprehensive personal finance solutions for households, in terms of the quality of services, products and added value and also in terms of efficiency, profitability and integrated marketing. NLB's retail banking segment was also reorganized as part of the implementation of the Bank's new strategy.

Transactions with households

Customers were offered a full range of innovations in 2011 in the scope of existing products, services and added value. The most important innovations are listed below.

A comprehensive financial advisory service was developed for personal banking and mass market customers. NLB offered household customers a new long-term structured deposit in 2011,

a relatively safe investment that offers the possibility of exploiting the potentially higher returns associated with a selected sub-fund, while guaranteeing the 100% repayment of principal.

In conjunction with the insurer, Zavarovalnica Triglav, NLB introduced a new insurance in the event of unemployment for loans to retail customers with a maturity of more than 24 months.

NLB Klik e-banking was also upgraded with additional functionalities. The most important new features are the introduction of My Financial Picture (a comprehensive overview of financial assets, costs and income, and an overview of changes to assets and cash flow), the possibility of securities trading and the upgrading of payment systems with elements of SEPA rules.

NLB received a prestigious award from the financial magazine, Euromoney, for best range of private banking services. The Content Marketing Institute in the US ranked NLB's financial advisory services project as one of the 15 most innovative marketing projects in the July issue of the *Chief Marketing Officer* magazine. The NLB Financial Advisory School received the award for best HRM project of the year.

SMEs

The new *Development Strategy for the SME Segment for the period 2012 to 2015* was drafted at the end of 2011. With the aforementioned strategy, NLB updated its segmentation of corporate customers with the aim of the highest-quality handling of the entire portfolio. Special attention is given to adapting the range of products and services to individually identified segments, an important part of which is customer service itself.

With the reorganization and optimization of its business network, NLB is striving for a more rapid and effective decision-making process, with an emphasis on risk management. Within the strategy, a number of opportunities have been identified to improve the Bank's operations in the corporate banking segment, some of which will be implemented as early as 2012. Emphasis will also be placed on improving customer satisfaction, the positive effects of which will also be seen in cross-sales between segments. NLB, as a bank with a wide range of products and services, aims to provide comprehensive services to every customer, and has therefore erased the line between corporate and retail customers.

Asset management

Part of the core of the NLB Group's strategy is its model for linking banking and asset management services.

Deteriorating economic conditions, a drop in equity markets and high net outflows on the Slovenian mutual fund market were characteristic of 2011.

Total assets under management declined in 2011. The majority of the decline in the net value of assets was the result of negative returns on the capital markets, and partly as the result of negative net sales. Nevertheless, NLB Skladi increased its market share in 2011 to 21.1% at the end of the year in terms of mutual fund assets from non-privatization sources.

Nevertheless, NLB Skladi ended the 2011 financial year with a net profit, which was lower than the net profit generated the previous year.

Financial markets in Slovenia

Despite the negative conditions on the financial markets, the NLB Group generated a pre-tax profit of EUR 14.9 million in this segment in 2011, compared with a profit of EUR 2.2 million generated in the same segment in 2010.

The improved results were driven by an increase in income from financial transactions, which include the one-time effect of the early repurchase of a hybrid instrument in the amount of EUR 41.5 million. Net interest income in this segment was down on 2010, primarily owing to a rise in deposit rates on funding secured on the interbank market.

Cost rationalization measures introduced by NLB in 2011 had a positive impact on costs in this segment, which were down 14% compared with 2010 to stand at EUR 15.3 million. The impairment of investments in securities, which amounted to EUR 7.8 million in 2011 (of which Greek government bonds accounted for EUR 2.7 million) had a negative effect on results. Exposure to the so-called PIIGS countries, with whom a loss of EUR 5.6 million was generated, was reduced by EUR 148.5 million in 2011.

Total investments, which primarily comprise investments in liquidity reserves, were

unchanged in 2011, while liabilities were down 15% on account of a reduction in debt owing to the repayment of maturing liabilities and the early repurchase of securities (a government-guaranteed bond and a hybrid instrument).

Transactions in financial instruments

Despite the continuing financial crisis and the deteriorating economic situation, turnover in financial instruments with customers was up minimally in 2011. Purchases and sales of foreign currencies and deposits continued to account for the highest proportions of turnover, while the proportion accounted for derivatives was up sharply.

Customer demand for hedging instruments against interest-rate and currency risks was up in 2011, although the number of actual transactions concluded was down, as customers did not opt for such solutions en masse due to the changing conditions on the financial markets. Nevertheless, the pool of potential customers expanded, while the need for new instruments linked primarily to the prices of precious metals and commodities was confirmed. The proportion of futures contracts linked to commodities was up 10 percentage points to stand at 16% in 2011.

At EUR 7.4 billion, the volume of securities trading was just one third of the volume recorded in 2010.

The total volume of trading in interbank deposits and treasury bills was EUR 40 billion. The majority of transactions (88.2%) were executed with foreign banks.

NLB, together with 12 foreign banks and two domestic banks, comprise the group of primary service providers for the Ministry of Finance. In addition to treasury bills, the Ministry of Finance also issued two government bonds in 2011: RS 69 and RS 70, both in the amount of EUR 1.5 billion. NLB served as one of the main organizers (lead manager) in the issue of the first bond.

NLB is the only Slovenian bank among the 46 international financial institutions that comprise the EFSF Market Group and participate in the initial public offerings of EFSF bonds. Four EFSF bonds were issued in 2011, with NLB serving as co-lead manager in three of the four issues.

Corporate financing

NLB was active again in 2011 in several projects linked to providing various forms of financing to corporates. In 2011, it thus participated in the issue of three bonds (KB 1909 from Gorizia, Italy, Cimos and Petrol) and in the sale and/or issue of shares of Lafarge (issue of shares to employees at the company's subsidiary in Slovenia) and of TPV. It also carried out the process of listing the shares of Unior for trading on the organized market of the Ljubljana Stock Exchange. NLB also successfully completed the sale of participating interests in the companies Carso and El-tec Mulej in 2011.

In the scope of securing sources of financing on foreign markets (e.g. funds from the EIB, EBRD and commercial banks, and the acquisition of bank guarantees for the purpose of drawing EIB funds), NLB helped secure financing for the construction of unit 6 of the Šoštanj thermal power plant, the natural gas transmission network for Geoplin and a new gas-steam unit at TE-TOL Ljubljana in 2011.

NLB also provides syndication services for private equity projects and infrastructure projects of national importance. The value of newly approved syndicated loans to residents of the Republic of Slovenia, for which NLB acted as organizer or agent, amounted to EUR 165 million in 2011.

Custody services

The tightening of conditions on the capital markets has been reflected in the slowing of the long-term trend of rapid growth. The amount of assets invested on foreign markets was down slightly in 2011, while growth of 30% and 20% was recorded on the domestic market and Balkan markets, respectively. The total value of assets in custody was up 12% to stand at EUR 8.152 billion.

The integration of the Slovenian capital market with developed European markets continued in 2011, with the introduction of remote membership custody services. As a selected agent and in cooperation with the international depository/settlement institution Clearstream Banking Luxembourg (CBL) and the Slovenian Central Securities Clearing Corporation (CSCC), NLB extended the possibilities of settling transactions in CBL's settlement system for

the equity and debt instruments of Slovenian companies. In conjunction with the Polish central depository (KDPW) and the CSCC, NLB facilitated the listing of securities by Slovenian issuers of financial instruments on the Warsaw Stock Exchange, which opened new investment opportunities for investors.

The managers of investment funds and the cover funds of pension companies and insurers were affected by statutory changes in 2011. The merging of investment funds and acquisitions in asset management began. NLB received into custody a major management company following the merger of two fund managers. The trend of a decline in the number of transactions in financial instruments continued, while there was an increase in payments to investment coupon holders. The majority of payments made by NLB related to the cover funds of pension companies, as the mandatory 10-year period of payments into this type of pension insurance scheme expired this year.

Strategic foreign markets

The NLB Group generated a pre-tax profit of EUR 14.5 million on strategic foreign markets in 2011, an increase of 7% on the previous year.

Operating results prior to provisions were up 1.2% compared with 2010, primarily on account of higher revenues (both interest income and non-interest income), while total costs were up 3%, since the segment is loaded with the higher transfer costs of managing NLB Group members.

All companies operating on strategic foreign markets generated a profit in 2011.

Liquidity problems and limited capital sources forced NLB Group companies to reduce their scope of lending, and thus risk-adjusted assets, to ensure that existing capital was sufficient to meet capital adequacy requirements. Nevertheless, Group banks were able to maintain their market positions in 2011, in terms of total assets, relative to 2010.

The NLB Group's focus on strategic markets is banking, as the primary activity, while the medium-term emphasis is on retail banking. The Group will ensure customer satisfaction and improve profitability by continuing to develop

products, while at the same time enhancing the collection of claims and the management of non-performing loans. Life and pension insurance and the management of mutual funds will remain strategic activities moving forward.

NLB Group companies have recently implemented a conservative lending policy. For this reason, the scope of lending is generally lower than a year earlier (the exceptions being NLB Tutunska banka, NLB Prishtina and NLB Tuzlanska banka). On the other hand, growth has been recorded in deposits, which improved the loan-to-deposit ratio. A great deal of effort was also invested in customer service in 2011, with the implementation of a project at the NLB Group level to introduce customer contact centers, while a campaign to promote contemporary sales channels was aimed at encouraging customers to shift to electronic and mobile banking.

NLB Group companies will continue to operate prudently in the near future. The emphasis remains on managing risks, the collection of claims and cost control.

Non-strategic markets and activities

The NLB Group kicked off a project in 2010 with the aim of divestment and withdrawal from non-strategic markets and activities. The first results of the project were seen already in 2011, when four divestment processes were completed. The following companies were divested in 2011: NLB Banka Sofia, NLB Nova penzija, NLB Factor and NLB Tutunska broker (the latter two companies have not yet been deleted from the companies register). In the future, NLB intends to continue selling off its investments on non-strategic markets and in factoring companies.

NLB Group companies on non-strategic markets are more susceptible to the adverse economic conditions, as they are no longer developing owing to their status or impending sale. These companies primarily conclude only current transactions, which also affects their operating results. The NLB Group generated a loss of EUR 141.6 million in the segment of non-strategic foreign investments in 2011, representing some 53% of the total loss generated by the NLB Group. This segment's loss was up 57% compared to 2010. There are

two reasons for this: the low volume of new investments has a negative effect on revenues, while provisions for loans and investments have risen owing to the deteriorating portfolio of these companies. Total operating costs are declining, but at a slower rate than the drop in revenues, which has a negative impact on results before provisions. Among non-strategic companies, only NLB Lizing Skopje, NLB Srbija, NLB InterFinanz Zurich, NLB Leasing Koper and NLB Leasing Belgrade generated a profit in 2011.

The NLB Group's primary focuses on non-strategic markets are tending to open transactions, maintaining the regulatory level of capital and other parameters and actively searching for potential buyers for capital investments on these markets. Another attempt will be made to sell companies that were not sold in the first round as the financial and capital markets recover.

Other subsidiaries operate with the aim of reducing or selling off their portfolio. If not sold, they will be subsequently liquidated or merged with other companies.

Other activities

The segment of other activities includes the activities of the NLB Group's non-financial companies, the operating results of associates and joint ventures and costs that cannot be allocated to individual segments (unoccupied premises owned by the Bank).

The NLB Group generated a loss of EUR 4.1 million in this segment in 2011.

Revenues in this segment are generated by companies involved in support activities, such as property management, maintenance, and catering and tourism services. The majority of these activities are carried out within the NLB Group, and therefore generate only a small portion of revenues on the market.

The contribution made by associates and joint ventures was negative in 2011 in the amount of EUR 2.8 million, while the same companies made a positive contribution in 2010 of EUR 3.8 million.

Provisions were also allocated to this segment in 2010 for the restructuring of the workforce.

Information technology

Total IT costs are allocated to business segments. The IT sector, therefore, does not have its own financial statements.

In 2011, NLB again maintained a high on-line availability rate, which stood at 99.75% in 2009, 99.87% in 2010 and 99.82% in 2011 in annual terms, meaning an increase in announced interruptions (of 0.04%), in part due to a larger number of technical upgrades than the previous year and due to the fact that 596 changes were made in application systems.

NLB continued to consolidate its IT architecture and improve cost efficiency in 2011. The focus of development was on solutions to improve the quality of customer support services, the development of new electronic banking services, ensuring an increased level of operational security and the consolidation of support for corporate customers in T24. NLB continued to take over the maintenance of packages and solutions purchased in recent years as a cost control measure.

Retail banking receives stable support. An important change in retail banking in 2011 was bringing the information regarding customers' financial position and structure of funds in NLB Klik. In addition to new services, the Bank introduced improved security features in NLB Klik, including the implementation of an early fraud detection system that was upgraded and integrated with the stock brokerage system. By continuing with the introduction of e-archiving, NLB is improving the efficiency of back-office services. By developing support for collateral management over the life cycle of loans, the Bank facilitates the necessary compliance with regulations and simplified procedures. Given the changes to legislation regulating consumer loans and to risk management regulations, support controls at bank counters were upgraded. The system for reporting to the SISBON interbank system, which monitors the debt and credit ratings of retail customers, was also upgraded.

In **corporate banking**, NLB continued adding functionality to products, particularly for non-

residents, with the aim of facilitating the migration of transactions from old solutions to T24 to the greatest extent possible. As a result, less than 4% of transactions remain in one of the old solutions. Key activities in the corporate banking segment were linked to improving support for collateral management and risk management. To that end, one-time solutions were developed to improve the quality of data.

Together with its partners, the Bank successfully introduced the electronic exchange of invoices via a collective processing center and their integration in e-banking. The Bank attracted several major customers, and expects even greater effects from introduced solutions in the coming year.

Regarding the support of **payment systems**, the majority of activities in recent years were linked to successful adaptations for NLB's inclusion in the standardized SEPA payment system, for which NLB fulfilled and introduced all requirements in a timely manner. IT support to ensure links to the SWIFT system for all NLB Group banks also continued. Like all participants in Slovenia, the Bank terminated the use of some old payment schemes and instruments in 2011, a process that will continue in 2012.

The reduced volume of trading on the financial markets has allowed NLB to re-analyze the processes and support used in **securities trading** and in linked risk management systems. Development was therefore limited to ensuring compliance as necessary and to integration with the new Xetra stock exchange trading system. The drafting and sending of all SWIFT series 5 reports for custody services were automated in 2011.

The **data warehouse** remains a crucial element of the Bank's information system, which underwent several upgrades in 2011 to ensure data for managing all types of risks, to ensure a comprehensive approach to money laundering, for the use of financial data from customers' operations for marketing support, etc. A crucial upgrade of the data warehouse was the

inclusion of new data for fulfilling the needs of consolidated reporting for the entire NLB Group.

The Bank upgraded several software programs, important among them being the acquisition of an accelerator for making inquiries from the data warehouse: IDAA – IBM DB2 Analytics Accelerator.

With the aim of rationalizing operating costs, NLB continued migrating the BA network to IP connections in conjunction with external partners, and agreed on the outsourcing of mass printing jobs to an external partner. For the same reason, the Bank analyzed the possibility of migrating to virtual workstations, which reduces investment costs in the long term and above all increases the security of end users' data.

The Bank regularly updates its business continuity plan and IT support recovery procedures, and tests them on a regular basis. More active control over the testing of IT

support recovery procedures at NLB Group companies was carried out in 2011, for which a standard methodology was developed and introduced.

NLB also continued in 2011 with its more active role in guiding information technology activities within the NLB Group. Going forward, this will allow the NLB Group to develop the appropriate competency centers for a specific solution and to improve the regulation of supplier relations. Uniform IT management standards were developed at NLB Group companies with the aim of standardizing processes. Procedures were introduced in 2011 for the collective purchase of software to manage processes associated with preventing money laundering and terrorist financing and for the first phase of the introduction of contact centers at NLB Group banks. With the aim of optimizing costs, the Bank took a similar approach to centralizing e-mail for all NLB Group companies, and made several software purchases for the entire Group.





Social Responsibility

Human resource management	58
Customers	60
Society and the environment	61

Human resource management

The NLB Group's strategy, the focal point of which is the Bank's cost effectiveness, required adapting to the changing economic conditions. A number of activities were carried out to lower operating costs and labor costs, and to reduce the number of employees, with the aim of improving the Bank's results.

The primary focus of human resource management was the implementation of measures to achieve the NLB Group's strategic objectives.

The reduced number of employees at NLB was the result of measures in the scope of the cost reduction project and the adoption of the *Decision regarding the sustained elimination of the need for a larger number of workers for business reasons*. The business reasons for the regular termination of employment contracts were of an economic nature, and were based on the automation of processes, the termination of activities with low added value and the centralization of activities that were carried out by several organizational units at different locations.

Development planning for all employees is based on their segmentation in terms of performance and development opportunities. The objective of segmentation is to identify employees who demonstrate development potential, to accelerate the development of the most effective employees and to employ the right people in the right jobs. This provides the starting point for advice regarding approaches to motivating, remunerating, development planning, promoting and even the firing of employees. The identification of key and prospective staff targets three job types: management positions, specialist positions and management-specialist positions.

The key elements of support for an individual's planned development are education, training and advanced studies. In line with the Bank's

strategy and the new human resource strategy, the education and training is also shifting to a strategic function.

Nearly 90% of education and training is organized internally at the Bank. Education and training programs vary, are in line with the Bank's vision and strategy, ensure compliance with legal obligations and support the development of the individual.

The recognition received by the Bank in 2011 is evidence that NLB invests a great deal in the development and education of its employees.

- The NLB Financial Advisory School received the award for best HRM project of the year, presented by Planet GV in conjunction with the magazine *HRM*. The purpose of the award is to present successful HRM projects from Slovenian corporate practice and promote the introduction of new projects relating to the treatment of people in the workplace.
- NLB was the recipient of the TOP 10 Education Management 2011 award. NLB received the aforementioned award, which recognizes systematic investment in knowledge and concern for employee education and training, for the fourth time.

Certain activities were introduced in 2011 with the objective of comprehensively managing performance, which is based on the linking of job descriptions, required employee competencies, regular annual interviews, staff development, education and training, advancement (both horizontal and vertical) and remuneration. These activities, which will continue in 2012, include:

- changes to *Job Systemization Rules* with the aim of aligning jobs with actual needs and introducing competencies (i.e. not just WHAT?, but also HOW?);
- the updating of annual interviews and the assessment of performance with the objectives of improving performance, introduction of the transparent allocation

- of the variable component of wages and targeted employee development; and
- the adoption of a *Remuneration Policy for Employees whose Work is of a Specific Nature* in accordance with the amended *Banking Act* with the aim of establishing an appropriate remuneration system, consistent with appropriate and effective risk management.

For several years, NLB has demonstrated its socially responsible treatment of employees through systematic education and the co-financing of studies, by providing financial assistance to employees in distress, by collecting funds to help those affected by major disasters, by facilitating regular recreational activities for employees through a sports club, etc.

NLB also received the Family-Friendly Company certificate in 2011. Receipt of the certificate is recognition of the Bank's sustained commitment and its constant efforts to create a work environment that stimulates employees and raises their level of satisfaction and loyalty to the Bank as an employer. The measures adopted cover different areas: improving management across all levels at the Bank, improving the organizational climate, increasing employee satisfaction and their motivation to work, optimizing the exploitation of employees' abilities, etc. NLB strives to take into account the objectives of the *Fair Balance Strategy of the Union* to the greatest extent possible and to solidify constructive cooperation with unions. Active cooperation with unions is one of the management team's most important tasks.

Table 16:
Key human resource management indicators

	2011	2010	2009
NLB employees	3,713	3,991	4,050
NLB Group employees*	7,448	7,873	8,019
NLB Group employees**	8,387	8,809	8,991
Female (in %)	74.4	73.8	74.4
Male (in %)	25.6	26.2	25.6
Average employee age (in years)	43.8	43.5	43.3
Proportion of employees with at least higher education (in %)	47	41	43
Proportion of employees with secondary education (in %)	50	55	53
Proportion of employees with vocational or lower education (in%)	3	4	4
New employees	22	146	128
Termination of employment	300	205	175
Proportion of employees included in training (in %)	100	90	96
Training program participants from NLB	18,416	15,104	14,087
Average length of employee training (in days)	4.1	4.1	3.4
Employees with on- and off-the-job training contracts	129	133	159

* NLB and subsidiaries of the NLB Group.

** NLB, subsidiaries, associates and joint ventures of the NLB Group.

Customers

In 2011, NLB implemented its overall customer focus strategy by formulating and implementing strategies for various customer segments. Special attention was given to analyzing needs, formulating offers and providing advisory services tailored to different segments, and to the in-depth segmentation of wealthier customers, mass market customers and small businesses.

NLB's success in adapting to the different needs of its customers is also confirmed by studies conducted by various independent agencies. According to the majority of results in recent years, NLB is the best-known bank in Slovenia, with the highest market share in all customer segments and in the majority of banking services. Most customers also consider NLB the most respected and best bank. Households and companies listed several traits important in selecting a bank: an extensive network of branches, tradition, power and stability, trustworthiness, a good, diverse, comprehensive and high-quality portfolio of products and services to meet the needs of customers, an internationally recognized bank, etc. Customers are satisfied with NLB on average. According to various customer satisfaction studies, NLB achieves an average mark exceeding 4 (with 5 being the highest level of satisfaction) in general and with respect to the majority of factors.

NLB has monitored the most important factors of customer satisfaction, as well as the desires and needs of customers, for more than 10 years. Studies of NLB's customers confirm stable or moderate growth in retail and corporate customer satisfaction in general and with respect to the majority of the most important factors.

The latest overall customer satisfaction indices indicate that the NLB Group's customers are satisfied on average. The overall satisfaction index stood at 82 for corporate customers at the end of 2009 and at 84 for retail customers at the end of 2010 (on a scale of 100, 100 representing the highest level of satisfaction). On average, customers are most satisfied with advisory staff (e.g. discretion, reliability, personal approach, advice, assistance, etc.), electronic banking and the majority of services. Satisfaction was slightly lower (at an average level) with respect to

financing services, including lending, prices and interest rates. Customers from different segments are satisfied on average, with no major differences, which confirms the Bank's ability to successfully adapt to various needs. The majority of customers will remain loyal to NLB in the future, although some customers also use the services of competitive banks.

A retail customer satisfaction study was also carried out in 2011 at all NLB Group banks that operate in SE Europe. The overall customer satisfaction index was 84, confirmation that there are no major differences between Slovenia and the other markets on which the NLB Group operates (indices ranged from 81 to 87). Customers most frequently characterized NLB Group banks with the most important traits: recognition, friendly and professional staff, fairness, security, trust, high-quality services, etc. Similar to Slovenia, they are most satisfied with advisory staff, while they were also satisfied with the portfolio of products and services, prices and various market channels. The majority of customers of NLB Group banks would select the same branches for their transactions, and would recommend those branches to acquaintances and friends.

A study of the satisfaction of NLB's most demanding and wealthiest customers, to whom the bank offers personal banking services, was repeated in 2011. These customers were also most satisfied with their personal bankers, who advise them and provide various services. Their satisfaction with the added values that NLB Personal Banking and the NLB Gold Account offer was also high.

In addition to traditional research, NLB also collects and analyses the opinions and various responses of customers regularly, and responds as appropriate.

Due to the stable and high level of customer satisfaction and loyalty in recent years, NLB's willingness to fulfill the wishes of its customers and the successful elimination of negative factors, the Bank expects to maintain this good position in the eyes of its customers in the future.

Society and the environment

In 2011, NLB began to fulfill the goals set out in the document *Social and Environmental Policy of NLB*, and thus met the requirements of international development institutions with whom NLB cooperates, primarily in various forms of borrowing. The *Social and Environmental Policy of NLB* was also introduced by NLB Group companies in 2011.

Social and environmental aspects will be included in contractual relationships with customers and suppliers. Environmental aspects have also been introduced to the Bank's internal rules. Procedures have also been initiated for the application of so-called Equator Principles. The areas in which changes must be made to facilitate the Bank's acceptance to the association of banks that follow the Equator Principles were identified in 2011. The aforementioned principles are applied to loans in projects where costs exceed USD 10 million.

NLB also expresses its social role in sponsorship activities and donations, and is perceived as an integral part of the environment in which it operates. The Bank's sponsorship of nearly 500 projects in 2011 demonstrates its social consciousness.

Sports

In 2011, the NLB Group was the general sponsor of the NLB League regional basketball league for the fifth consecutive year. In parallel with the NLB League, a regional wheelchair basketball league, NLB Wheel, has also been developed with NLB's assistance. The league includes teams from Slovenia, Croatia, Bosnia and Herzegovina, Serbia and Italy. The Bank was also golden sponsor and partner of the Slovenian men and women's alpine skiing teams in 2011.

Recreation and sport go hand in hand. In recent years, interest in running and biking has increased dramatically in Slovenia. NLB works with recreational sports organizers. Many employees are members of teams that regularly participate in such competitions. The Bank was also sponsor of the Ljubljana Marathon, in which a large number of NLB employees participated.

Culture

As a result of its long-standing collaboration, the Bank has become an important partner of the Ljubljana Jazz Festival, which celebrated its 52nd anniversary in 2011. NLB has played a role in the Ljubljana Festival for more than 10 years. Every large Slovenian town has numerous cultural events, and NLB is involved nearly everywhere it operates. In 2011, the Bank sponsored more than 50 cultural events, organizations and institutions. For decades, the Bank has been assembling its own art collection with the aim of preserving Slovenian cultural identity. NLB's long-term goal is to build one of the most representative collections of Slovenian artists of the 20th and 21st centuries. A commission of experts expands the collection every year with important works by prominent Slovenian artists. By purchasing artworks by renowned artists, the Bank supports the development and promotion of Slovenian art. The NLB Gallery hall, with its 40 years of tradition, has featured creators and trends in visual communication from Slovenia, Europe and America, as selected by the Emzin Institute of Creative Production, for 12 consecutive years.

Humanitarian activities

NLB participates in more than 100 humanitarian projects in all regions where it operates. Among the largest and longest standing are Caritas, the Slovenian Red Cross, and numerous hospitals and institutions, to which NLB makes annual donations for the purchase of equipment. NLB donated funds to retirement homes in 2011 in the scope of the Slovenian-wide humanitarian campaign *Dobra zvezda* (Good Star). All branches have collection boxes, through which local humanitarian organizations organize the collection of contributions to support their activities. NLB supported the Slovenian Red Cross in its campaign "*Peljimo jih na morje*" (Let's Go to the Seaside). In the scope of the aforementioned campaign, the Slovenian Red Cross organizes holidays every year for children and the elderly who otherwise could not afford them. A blood drive for employees was also organized at the end of the year. The Bank also gives its attention to ensuring easier access to

business premises for functionally limited persons. The Bank aims to facilitate easier access to all of its branches.

Environmental protection

Environmental responsibility and conduct are factors that can no longer be overlooked. Employees of the NLB Group are very aware of that responsibility. In 2011, NLB received the Green Office award, presented every year by Planet GV to public and private sector organizations that function primarily in an office environment, and wish to raise awareness of environmental issues through their conduct and resolve them in an appropriate manner.

NLB has begun to take into account objectives linked to environmental protection in the purchase of office materials and the execution of tenders for other purchases. A tremendous amount of effort has also been exhausted in reducing the use of paper, water and electricity. A rational approach to the sending of account statements was introduced in 2011, which will contribute significantly to reducing the use of paper, while resulting in considerable savings for the Bank. Waste separation containers were placed in all commercial buildings, while collection points for used batteries were also set up in larger buildings.



Accuity

2 Financial Statements

ACCULTY

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Audited Financial Statements of NLB d.d. and the NLB Group

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



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nova Ljubljanska Banka, d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Nova Ljubljanska Banka, d.d. and its subsidiaries ("NLB Group" or "the Group") and the separate financial statements of Nova Ljubljanska Banka, d.d. ("NLB" or "the Bank") which comprise the statements of financial position as of 31 December 2011 and the statements of income, comprehensive income, changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes (collectively the "Financial Statements").

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Acts, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2011, and of their financial performance and their cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Acts.

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The company is registered by District court in Ljubljana under the number 12156800 as well in to the register of the Auditing companies by Slovene Audit Institute under the number RD-A-014. The amount of the registered share capital is EUR 34.802. The list of employed auditors is available at the registered office of the company.



Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Directors' Report in accordance with the Slovene Corporation Act. We are required by the Slovene Corporation Act to read the Directors' Report and to express an opinion whether the Directors' Report is consistent with the Financial Statements.

In our opinion, the Directors' Report is consistent with the accompanying Financial Statements as at 31 December 2011 and for the year then ended.

12 March 2012

PricewaterhouseCoopers d.o.o.

Leon Živec
Certified auditor

Paul Facer
Partner

PRICEWATERHOUSECOOPERS  d.o.o.
5

Contents

INCOME STATEMENT	72
STATEMENT OF COMPREHENSIVE INCOME	73
STATEMENT OF FINANCIAL POSITION	74
STATEMENT OF CHANGES IN EQUITY	75
STATEMENT OF CASH FLOWS	76
1. GENERAL INFORMATION	79
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	79
2.1. Statement of compliance	79
2.2. Basis of presentation of financial statements	79
2.3. Comparative amounts	79
2.4. Consolidation	79
2.5. Investments in subsidiaries, associates and joint ventures	80
2.6. Goodwill and bargain purchases	80
2.7. Mergers of NLB Group entities	80
2.8. Foreign currency translation	80
2.9. Interest income and expenses	81
2.10. Fee and commission income	81
2.11. Dividend income	81
2.12. Financial instruments	81
2.13. Impairment of financial assets	83
2.14. Offsetting	85
2.15. Sale and repurchase agreements	85
2.16. Property and equipment	85
2.17. Intangible assets	85
2.18. Investment property	85
2.19. Non-current assets and disposal group classified as held for sale	85
2.20. Accounting for leases	86
2.21. Cash and cash equivalents	86
2.22. Borrowings	86
2.23. Provisions	86
2.24. Financial guarantees	86
2.25. Inventories	87
2.26. Taxes	87
2.27. Fiduciary activities	87
2.28. Employee benefits	87
2.29. Share capital	88
2.30. Segment reporting	88
2.31. Critical accounting estimates and judgments in applying accounting policies	88
2.32. Implementation of new and revised International Financial Reporting Standards	90
3. CHANGES IN SUBSIDIARY HOLDINGS	93
4. NOTES TO THE INCOME STATEMENT	94
4.1. Interest income and expenses	94
4.2. Dividend income	95
4.3. Fee and commission income and expenses	95
4.4. Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	96
4.5. Gains less losses from financial assets and liabilities held for trading	97
4.6. Other operating income	97

4.7.	Other operating expenses	97
4.8.	Administrative expenses.....	98
4.9.	Depreciation and amortization	99
4.10.	Provisions for other liabilities and charges	99
4.11.	Impairment charge.....	99
4.12.	Income tax.....	100
4.13.	Earnings per share	100
5.	NOTES TO THE STATEMENT OF FINANCIAL POSITION.....	101
5.1.	Cash and balances with central banks.....	101
5.2.	Trading assets	101
5.3.	Financial instruments designated at fair value through profit or loss	102
5.4.	Available for sale financial assets.....	103
5.5.	Derivatives for hedging purposes	104
5.6.	Fair value hierarchy of financial instruments	106
5.7.	Loans and advances to banks.....	109
5.8.	Loans and advances to customers	110
5.9.	Held to maturity investments	111
5.10.	Non-current assets and disposal group classified as held for sale	112
5.11.	Property and equipment	114
5.12.	Investment property	116
5.13.	Intangible assets	116
5.14.	Investments in subsidiaries, associates and joint ventures	118
5.15.	Other assets.....	122
5.16.	Movements in allowance for impairment of banks, loans and advances to customers and other assets.....	123
5.17.	Trading liabilities	125
5.18.	Deposits, borrowings and debt securities	125
5.19.	Subordinated liabilities	126
5.20.	Provisions.....	128
5.21.	Deferred income tax	130
5.22.	Tax effects relating to each component of other comprehensive income	132
5.23.	Other liabilities.....	133
5.24.	Share capital	133
5.25.	Reserves.....	133
5.26.	Capital adequacy ratios.....	134
5.27.	Foreign branches	135
5.28.	Off-balance sheet liabilities	135
5.29.	Funds managed on behalf of third parties	137
6.	EVENTS AFTER REPORTING DATE	137
7.	RISK MANAGEMENT.....	138
7.1.	Credit risk management.....	138
7.2.	Market risk management.....	152
7.3.	Operational risk management.....	176
7.4.	Information regarding the quality of debt securities	177
7.5.	Fair value of financial instruments	178
8.	OTHER DISCLOSURES.....	180
8.1.	Analysis by segment.....	180
8.2.	Related-party transactions.....	183

Income statement

	Notes	NLB		NLB Group	
		2011	2010	2011	2010
Interest and similar income	4.1.	650,148	626,486	916,469	918,961
Interest and similar expense	4.1.	(380,856)	(359,481)	(499,132)	(482,863)
Net interest income		269,292	267,005	417,337	436,098
Dividend income	4.2.	11,708	18,555	5,467	5,243
Fee and commission income	4.3.	143,071	146,805	201,221	203,492
Fee and commission expense	4.3.	(27,343)	(27,149)	(47,743)	(44,786)
Net fee and commission income		115,728	119,656	153,478	158,706
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	4.4.	27,192	(1,084)	28,874	1,118
Gains less losses from financial assets and liabilities held for trading	4.5.	1,376	(29,010)	8,329	(20,130)
Losses from financial assets designated at fair value through profit or loss		(1,185)	(5,366)	(1,247)	(5,279)
Fair value adjustments in hedge accounting	5.5.	331	785	237	785
Foreign exchange translation gains less losses	4.5.	(2,733)	36,404	(1,348)	33,268
Gains less losses on derecognition of assets other than held for sale		144	(33)	(608)	(1,908)
Other operating income	4.6.	14,842	16,614	37,028	41,448
Other operating expenses	4.7.	(5,551)	(3,059)	(11,017)	(7,545)
Administrative expenses	4.8.	(207,027)	(216,431)	(324,970)	(335,837)
Depreciation and amortization	4.9.	(31,742)	(31,969)	(55,415)	(57,229)
Provisions for other liabilities and charges	4.10.	(40,678)	(22,987)	(32,484)	(24,419)
Impairment charge	4.11.	(426,131)	(353,847)	(487,919)	(452,557)
Share of profits or (losses) of associates and joint ventures accounted for using the equity method	5.14.c)	-	-	(2,818)	3,856
Net (loss)/gain from non-current assets held for sale		(3,339)	(1,556)	224	(2,583)
LOSS BEFORE INCOME TAX		(277,773)	(206,323)	(266,852)	(226,965)
Income tax	4.12.	44,572	22,900	26,769	21,031
LOSS FOR THE YEAR		(233,201)	(183,423)	(240,083)	(205,934)
Owners of the parent		(233,201)	(183,423)	(239,198)	(202,289)
Non-controlling interests		-	-	(885)	(3,645)
Basic and diluted loss per share (in EUR per share)	4.13.	(22.6)	(20.7)	(23.2)	(22.8)

The notes are an integral part of these financial statements.

Statement of comprehensive income

	Notes	NLB		NLB Group	
		2011	2010	2011	2010
Net loss for the year after tax		(233,201)	(183,423)	(240,083)	(205,934)
Other comprehensive loss after tax		(46,151)	(674)	(43,369)	(3,580)
Hedge of a net investment in a foreign operation		-	-	933	-
Net valuation losses taken to equity		-	-	933	-
Foreign currency translation		-	-	4,242	(4,903)
Translation losses taken to equity		-	-	4,242	(4,903)
Cash flow hedges (effective portion)		119	1,503	119	1,503
Net valuation losses taken to equity	5.5.	(2,564)	(2,796)	(2,564)	(2,796)
Transferred to profit	5.5.	2,683	4,299	2,683	4,299
Available for sale financial assets		(57,992)	(2,346)	(56,893)	553
Valuation losses taken to equity		(86,782)	(50,078)	(84,011)	(46,448)
Transferred to profit	4.4. and 4.11.	28,790	47,732	27,118	47,001
Share of other comprehensive losses of entities accounted for using the equity method		-	-	(3,130)	(287)
Income tax relating to components of other comprehensive income	5.22.	11,722	169	11,360	(446)
Total comprehensive loss for the year after tax		(279,352)	(184,097)	(283,452)	(209,514)
Attributable to owners of the parent		(279,352)	(184,097)	(282,416)	(206,115)
Attributable to non-controlling interests		-	-	(1,036)	(3,399)

The notes are an integral part of these financial statements.

Statement of financial position

	Notes	NLB		NLB Group	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash and balances with central banks	5.1.	304,975	204,429	833,945	764,895
Trading assets	5.2.	179,498	155,239	179,700	157,691
Financial assets designated at fair value through profit or loss	5.3.	2,074	23,781	3,661	25,674
Available for sale financial assets	5.4.a)	1,425,570	1,985,181	1,888,043	2,433,414
Derivatives - hedge accounting	5.5.	37,717	35,584	37,717	35,584
Loans and advances to banks	5.7.	594,621	570,228	783,754	850,228
Loans and advances to customers	5.8.	8,461,760	9,199,809	10,748,684	11,879,659
Held to maturity investments	5.9.	1,067,991	759,869	1,067,991	759,954
Fair value changes of the hedged items in portfolio hedge of interest rate risk		603	301	603	301
Non-current assets and disposal group classified as held for sale	5.10.a)	4,689	22,965	5,787	123,908
Pledged assets	5.4.b)	-	20,593	-	20,593
Property and equipment	5.11.	147,392	157,093	328,400	346,995
Investment property	5.12.	1,687	1,637	58,757	51,705
Intangible assets	5.13.	62,440	73,494	130,328	146,489
Investments in subsidiaries	5.14.a)	481,980	467,094	-	-
Investments in associates and joint ventures	5.14.b)	65,998	65,995	105,322	111,760
Current income tax assets		-	675	3,305	4,112
Deferred income tax assets	5.21.	103,778	43,841	104,867	60,745
Other assets	5.15.	37,245	42,411	163,928	114,245
TOTAL ASSETS		12,980,018	13,830,219	16,444,792	17,887,952
Deposits and borrowings from central banks		250,062	-	310,097	-
Trading liabilities	5.17.	93,723	90,873	94,126	91,789
Financial liabilities designated at fair value through profit or loss	5.3.	2,074	-	2,074	-
Derivatives - hedge accounting	5.5.	43,139	28,107	43,139	28,107
Deposits from banks	5.18.a)	118,988	179,396	140,869	227,011
Borrowings from banks	5.18.b)	1,770,876	2,051,757	2,193,580	2,924,873
Due to customers	5.18.a)	7,559,943	7,663,670	10,193,696	10,386,968
Borrowings from other customers	5.18.b)	32,938	14,086	218,904	196,630
Debt securities in issue	5.18.d)	1,234,987	1,793,520	1,232,934	1,803,962
Subordinated liabilities	5.19.	750,893	848,413	783,566	901,461
Financial liabilities associated with transferred assets	5.18.c)	-	20,669	-	20,669
Fair value changes of the hedged items in portfolio hedge of interest rate risk		580	1,134	580	1,134
Liabilities of disposal group classified as held for sale	5.10.a)	-	-	-	43,264
Provisions	5.20.	107,952	71,049	131,701	102,869
Current income tax liabilities		507	880	1,231	1,697
Deferred income tax liabilities	5.21.	-	-	683	1,894
Other liabilities	5.23.	56,465	80,417	99,919	124,001
TOTAL LIABILITIES		12,023,127	12,843,971	15,447,099	16,856,329
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT					
Share capital	5.24.	92,314	74,328	92,314	74,328
Share premium	5.25.	727,603	495,595	727,603	495,595
Revaluation reserve		(41,226)	4,925	(52,942)	(9,724)
Profit reserves		180,248	413,448	180,248	413,448
Retained earnings		-	-	30,884	39,502
Treasury shares		(2,048)	(2,048)	(2,048)	(2,048)
		956,891	986,248	976,059	1,011,101
Non-controlling interests		-	-	21,634	20,522
TOTAL EQUITY		956,891	986,248	997,693	1,031,623
TOTAL LIABILITIES AND EQUITY		12,980,018	13,830,219	16,444,792	17,887,952

The notes are an integral part of these financial statements.

The Management Board has approved the release of financial statements and the accompanying notes.



Guy Snoeks
Member of the
Management Board



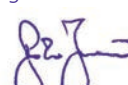
Robert Kleindienst
Member of the
Management Board



Marko Jazbec
Member of the
Management Board



David Benedek
Member of the
Management Board



Božo Jašovič
Member of the
Management Board & CEO

Ljubljana, March 12, 2012

Statement of changes in equity

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	
- Net loss for the year	-	-	-	-	(183,423)	-	(183,423)	
- Other comprehensive loss	-	-	(674)	-	-	-	(674)	
Total comprehensive loss after tax	-	-	(674)	-	(183,423)	-	(184,097)	
Appropriation to profit reserves	-	-	-	(183,423)	183,423	-	-	
Merger of subsidiary	-	-	-	(7,277)	-	-	(7,277)	
Balance at December 31, 2010	74,328	495,595	4,925	413,448	-	(2,048)	986,248	
- Net loss for the year	-	-	-	-	(233,201)	-	(233,201)	
- Other comprehensive loss	-	-	(46,151)	-	-	-	(46,151)	
Total comprehensive loss after tax	-	-	(46,151)	-	(233,201)	-	(279,352)	
New share capital subscribed	17,986	232,014	-	-	-	-	250,000	
Appropriation to profit reserves	-	-	-	(233,200)	233,200	-	-	
Other*	-	(6)	-	-	1	-	(5)	
Balance at December 31, 2011	92,314	727,603	(41,226)	180,248	-	(2,048)	956,891	

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 year	-	-	-	-	(202,289)	-	(202,289)	(3,645)	(205,934)
- Other comprehensive loss	-	-	(3,826)	-	-	-	(3,826)	246	(3,580)
Total comprehensive loss after tax	-	-	(3,826)	-	(202,289)	-	(206,115)	(3,399)	(209,514)
Dividends paid	-	-	-	-	-	-	-	(1,319)	(1,319)
Appropriation to profit reserves	-	-	-	(190,700)	190,700	-	-	-	-
Transactions with non-controlling interests	-	-	-	-	612	-	612	(529)	83
Other	-	-	-	-	(1,823)	-	(1,823)	-	(1,823)
Balance at December 31, 2010	74,328	495,595	(9,724)	413,448	39,502	(2,048)	1,011,101	20,522	1,031,623
- Net loss for the year	-	-	-	-	(239,198)	-	(239,198)	(885)	(240,083)
- Other comprehensive loss	-	-	(43,218)	-	-	-	(43,218)	(151)	(43,369)
Total comprehensive loss after tax	-	-	(43,218)	-	(239,198)	-	(282,416)	(1,036)	(283,452)
New share capital subscribed	17,986	232,014	-	-	-	-	250,000	-	250,000
Dividends paid	-	-	-	-	-	-	-	(3)	(3)
Appropriation to profit reserves	-	-	-	(233,200)	233,200	-	-	-	-
Transactions with non-controlling interests	-	-	-	-	(2,621)	-	(2,621)	2,151	(470)
Other*	-	(6)	-	-	1	-	(5)	-	(5)
Balance at December 31, 2011	92,314	727,603	(52,942)	180,248	30,884	(2,048)	976,059	21,634	997,693

* Other relates to costs directly attributable to the issuance of new shares and unpaid dividends.

The notes are an integral part of these financial statements.

Statement of cash flows

	NLB		NLB Group	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	594,235	575,600	834,272	846,684
Interest paid	(371,165)	(352,012)	(478,712)	(482,319)
Dividends received	11,703	20,615	6,360	9,427
Fee and commission receipts	141,871	147,068	203,408	203,765
Fee and commission payments	(44,918)	(41,375)	(64,979)	(59,785)
Realized gains from financial assets and financial liabilities not at fair value through profit or loss	4,079	2,177	5,765	4,425
Realized losses from financial assets and financial liabilities not at fair value through profit or loss	(6,186)	(3,261)	(6,190)	(3,307)
Gains/(Losses) from financial assets and liabilities held for trading	3,211	(30,328)	9,889	(22,374)
Payments to employees and suppliers	(210,965)	(218,871)	(329,989)	(352,815)
Other income	14,434	17,520	41,699	49,917
Other expenses	(3,039)	(4,775)	(9,103)	(9,773)
Income tax received/(paid)	263	17,461	(2,535)	13,059
Cash flows from operating activities before changes in operating assets and liabilities	133,523	129,819	209,885	196,904
Decreases in operating assets	979,658	1,170,895	1,374,017	1,134,820
Net (increase)/decrease in trading assets	(20,101)	215,662	(18,608)	218,665
Net decrease/(increase) in financial assets designated at fair value through profit or loss	20,557	(1,033)	20,802	(1,033)
Net decrease in available for sale financial assets	507,197	441,235	669,744	409,383
Net decrease in loans and advances	474,369	511,733	722,693	525,042
Net (increase)/decrease in other assets	(2,364)	3,298	(20,614)	(17,237)
Decreases in operating liabilities	(781,612)	(1,657,165)	(1,291,925)	(1,690,974)
Net increase/(decrease) in deposits and borrowings from central banks	250,000	(800,225)	310,000	(800,225)
Net decrease in deposits and borrowings measured at amortized cost	(462,577)	(851,301)	(1,026,514)	(871,464)
Net decrease in securities measured at amortized cost	(565,640)	(6,170)	(578,232)	(6,252)
Net (decrease)/increase in other liabilities	(3,395)	531	2,821	(13,033)
Net cash used in operating activities	331,569	(356,451)	291,977	(359,250)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	129,202	72,180	130,808	84,824
Proceeds from sale of property and equipment and investment property	50	104	4,998	9,040
Proceeds from sale of subsidiaries	15,298	-	10,582	-
Net decrease in non-current assets held for sale	862	-	2,124	3,708
Proceeds from disposals of held to maturity investments	112,573	72,076	112,685	72,076
Other receipts	419	-	419	-
Payments from investing activities	(505,549)	(302,062)	(466,392)	(306,712)
Purchase of property and equipment and investment property	(7,365)	(9,410)	(27,459)	(47,485)
Purchase of intangible assets	(9,766)	(7,565)	(11,646)	(10,995)
Purchase of subsidiaries and increase in subsidiaries' equity	(61,131)	(36,855)	-	-
Purchase of associates and joint ventures	(4)	-	(4)	-
Purchase of held to maturity investments	(427,283)	(248,232)	(427,283)	(248,232)
Net cash flows used in investing activities	(376,347)	(229,882)	(335,584)	(221,888)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from financing activities	250,000	61,557	250,000	65,731
Issue of subordinated debt	-	61,557	-	65,531
Issue of ordinary shares	250,000	-	250,000	-
Other proceeds related to financing activities	-	-	-	200
Payments from financing activities	(63,506)	-	(82,510)	(1,405)
Dividends paid	-	-	(4)	(1,405)
Repayments of subordinated debt	(63,500)	-	(82,500)	-
Other payments related to financing activities	(6)	-	(6)	-
Net cash from financing activities	186,494	61,557	167,490	64,326
Effects of exchange rate changes on cash and cash equivalents	3,338	12,050	6,631	15,141
Net increase/(decrease) in cash and cash equivalents	141,716	(524,776)	123,883	(516,812)
Cash and cash equivalents at beginning of year	441,078	951,744	1,447,245	1,948,916
Merger of subsidiary	-	2,060	-	-
Cash and cash equivalents at end of year	586,132	441,078	1,577,759	1,447,245

The notes are an integral part of these financial statements.

Statement of cash flows

	Notes	NLB		NLB Group	
		2011	2010	2011	2010
Cash and cash equivalents comprise:					
Cash and balances with central banks	5.1. and 5.10.	304,975	204,429	833,945	768,457
Loans and advances to banks with original maturity up to 3 months	5.7. and 5.10.	279,156	236,649	550,050	595,064
Trading assets with original maturity up to 3 months	5.2.	2,001	-	2,072	334
Available for sale financial assets with original maturity up to 3 months	5.4.	-	-	191,692	83,390
TOTAL		586,132	441,078	1,577,759	1,447,245

Statement of management's responsibility

The Management Board hereby confirms its responsibility for the preparation of the financial statements of the NLB and the consolidated financial statements of the NLB Group for the year ended December 31, 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 NLB and NLB Group as at December 31, 2011 and their financial results and cash flows for the year 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 NLB and NLB Group, together with the notes, have been prepared on a going-concern basis for the NLB and NLB 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 NLB Group companies at any time within 3 to 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) is a joint stock entity providing universal banking services. The NLB Group operates in more than thirteen countries.

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

NLB's largest shareholders as at December 31, 2011 are the Republic of Slovenia, owning 45.62% of shares (December 31, 2010: 33.10%), and KBC Bank N.V. Brussels, owning 25.00% of shares (December 31, 2010: 30.57%). By increasing the capital of NLB, the Republic of Slovenia and its controlled companies exceeded 50% ownership in NLB. Republic of Slovenia together with its related companies presents the ultimate controlling party of 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

The principal accounting policies adopted for the preparation of the separate and consolidated financial statements are set out below. Policies have been consistently applied to all the years presented.

2.1. Statement of compliance

The principal accounting policies applied in the preparation of the separate and consolidated financial statements have been prepared in accordance with the International Financial Accounting Standards (hereinafter: the IFRS) as adopted by the European Union (hereinafter: EU). Additional requirements under the national legislation are included where appropriate.

The separate and consolidated financial statements comprise the income statement and statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, significant accounting policies and the notes.

2.2. Basis of presentation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale financial assets and financial assets and financial liabilities at fair value

through profit or loss, including all derivative contracts, and investment property.

The preparation of financial statements pursuant to the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Critical accounting policies and estimates are disclosed in note 2.31.

2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year.

2.4. Consolidation

In the consolidated financial statements subsidiary undertakings, which are those entities in which the NLB Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the NLB Group and are no longer consolidated from the date that control ceases. Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by the NLB Group. The financial statements of consolidated subsidiaries were prepared as of the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by NLB. The NLB Group measures non-controlling interest on a transaction by transaction basis, either at fair value, or the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances and unrealized gains on transactions between NLB Group entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The NLB Group treats transactions with non-controlling interests as transactions with equity owners

of the NLB Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on sales to non-controlling interests are also recorded in equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity.

The NLB Group's subsidiaries are presented in note 5.14.

2.5. Investments in subsidiaries, associates and joint ventures

In the separate financial statements, investments in subsidiaries, associates and joint ventures are accounted for at cost. Dividends from a subsidiaries, joint ventures or associates are recognized in income statement when NLB's right to receive the dividend is established.

In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting. These are undertakings in which the NLB Group generally holds between 20% and 50% of voting rights, and over which the NLB Group exercises significant influence, but does not have control.

The NLB Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, its share of other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the NLB Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the NLB Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Joint ventures are those entities over whose activities the NLB Group has joint control, as established by contractual agreement. In the consolidated financial statements investments in joint ventures are accounted for using the equity method of accounting.

The NLB Group's principal associates and joint ventures are presented in note 5.14.

2.6. Goodwill and bargain purchases

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or

assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

The goodwill of associates and joint ventures is included in the carrying value of investments.

2.7. Mergers of NLB Group entities

A merger of entities within the NLB Group is a business combination involving entities under common control. For such mergers the NLB Group applies merger accounting principles and uses the carrying amounts of merged entities, as reported in the consolidated financial statements. No goodwill arises on mergers of NLB Group entities and any difference between net assets merged and the cost of investment is recorded directly in equity.

Mergers of entities within the NLB Group do not affect the consolidated financial statements.

2.8. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the NLB Group's entities are measured using the currency of the primary economic environment in which the entity operates (i.e. the functional currency). The financial statements are presented in euros, which is the NLB Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Translation differences resulting from changes in the amortized cost of monetary items denominated in foreign currency and classified as available for sale financial assets, are recognized in the income statement.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equities classified as available for sale, are included together with valuation reserves in the valuation (losses)/gains taken to other comprehensive income and accumulated in revaluation reserve in equity.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as gains less losses from financial assets and liabilities held for trading.

NLB Group entities

The financial statements of all the NLB Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each income statement are translated at average exchange rates;
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

During consolidation, exchange differences arising from the translation of the net investment in foreign operations are transferred to other comprehensive income. When control over a foreign operation is lost, the previously recognized exchange differences on translations to a different presentation currency are reclassified from other comprehensive income to profit and loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

2.9. Interest income and expenses

Interest income and expenses are recognized in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. The effective interest rate method is a method used to calculate the amortized cost of a financial asset or financial liability and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period when appropriate, to the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract and all transaction costs, but excludes future credit risk losses. Once a financial asset or a group of similar financial assets has been impaired, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10. Fee and commission income

Fees and commissions are generally recognized when the service has been provided. Fees and commissions consist mainly of fees received from payment services and from the managing of funds on behalf of legal entities and individuals, together with commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

Dividends are recognized in the income statement when the NLB Group's right to receive payment is established and inflow of economic benefits is probable. In consolidated financial statement dividends received from associates and joint ventures reduce the carrying value of the investment.

2.12. Financial instruments

a) Classification

The classification of financial instruments on initial recognition depends on the instruments' characteristics and management's intention. In general, the following criteria are taken into account:

Financial instruments at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading and financial instruments designated at fair value through profit or loss at inception. A financial instrument is classified in this group if acquired principally for the purpose of selling in the short term or if so designated by management.

The NLB Group designates financial instruments at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the NLB Group's key management; or
- a financial instrument contains one or more embedded derivatives that could significantly modify the cash flows otherwise required by the contract.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Loans and advances

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted on an active market, other than: (a) those that the NLB Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the NLB Group, upon initial recognition, classifies at fair value through profit or loss; (b) those that the NLB Group, upon initial recognition, classifies as available for sale; or (c) those for which the NLB Group may not recover substantially all of its initial investment, for reasons other than deterioration in creditworthiness.

Held to maturity investments

Held to maturity investments are non-derivative financial instruments that are traded in an active market with fixed or determinable payments and a fixed maturity that the NLB Group has both the intention and ability to hold to maturity. An investment

is not classified as held to maturity investment if the NLB Group has the right to require that the issuer repays or redeems the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the assets until the maturity.

Available for sale financial assets

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

b) Measurement and recognition

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

Regular way purchases and sales of financial assets at fair value through profit or loss, and assets held to maturity and available for sale, are recognized on the trade date. Loans and advances are recognized when cash is advanced to the borrowers.

Financial assets at fair value through profit or loss and available for sale financial assets are subsequently measured at fair value. Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available for sale financial assets are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative amount previously included in other comprehensive income is recycled in the income statement. However, interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available for sale equity instruments are recognized in the income statement when the NLB Group's right to receive payment is established.

Loans and held to maturity investments are carried at amortized cost.

c) Day one gains or losses

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets, the

difference between the transaction price and fair value is recognized immediately in the income statement ("day one gains or losses").

In cases where the data used for valuation is not fully observable in financial markets, day one gains or losses are not recognized immediately in the income statement. The timing of recognition of deferred day one gains or losses is determined individually. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs or realized through settlement.

d) Reclassification

Financial assets that are eligible for classification as loans and advances can be reclassified out of the held for trading category if they are no longer held for the purpose of selling or repurchasing them in the near term. Financial assets that are not eligible for classification as loans and receivables may be transferred from the held for trading category only in rare circumstances. Additionally, instruments designated at fair value through profit and loss cannot be reclassified.

e) Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition. A financial liability is derecognized only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the current bid price at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

If discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market based rate at the reporting date for an instrument with similar terms and conditions. If pricing models are used, inputs are based on market based measurements at the reporting date.

g) Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward and futures contracts, swaps and options, are initially recognized in the statement of financial position at fair value. Derivative financial instruments are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favourable to the NLB Group and within liabilities when the derivative position is unfavourable to the NLB Group.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The NLB Group designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge),
- hedges of highly probable future cash flows attributable to a recognized asset or liability, or a highly probable forecasted transaction (cash flow hedge) or
- hedges of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The NLB Group documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The NLB Group also documents its assessment, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The actual results of a hedge must always fall within a range of 80% to 125%.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in "fair value adjustments in hedge accounting" in the income statement. Any ineffectiveness is recorded in "Gains less losses on financial assets and liabilities held for trading".

If a hedge no longer meets the hedge accounting criteria, the adjustment to the carrying amount of the hedged item for which the effective interest rate method is used is amortized to profit or loss over the remaining period to maturity. The adjustment to the carrying amount of a hedged equity security is included in the income statement upon disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement in "Gains less losses on financial assets and liabilities held for trading".

Amounts accumulated in equity are recycled as a reclassification from other comprehensive income to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other

comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity and is recognized in profit or loss only when the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized directly in equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement in "Gains less losses on financial assets and liabilities held for trading". Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

In the separate financial statements the hedge of the net investment in foreign operation is accounted for as fair value hedge.

2.13. Impairment of financial assets

a) Assets carried at amortized cost

The NLB Group assesses impairments of financial assets individually for all individually significant assets where there is objective evidence of impairment; all other financial assets are impaired collectively. According to the Regulation on credit risk loss assessment of the Bank of Slovenia financial asset or off-balance sheet liability is individually significant if total exposure to the client exceeds 0.5% of bank's equity. In years 2011 and 2010 all exposures to banks, all exposures to other legal entities with A and B rating whose exposure exceeds EUR 6,500 thousand, all legal entities rated C, whose exposure exceeds EUR 500 thousand and all exposures to D and E legal entities, whose exposure exceeds EUR 10 thousand are considered individually significant assets by NLB. If the NLB Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristic and collectively assesses them for impairment.

The NLB Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the NLB Group uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral; and
- downgrading below investment grade level.

The estimated period between the occurrence of problems, which prevent the client from paying his obligations to the NLB Group, and identification of these problems by the NLB Group varies from between three and six months.

If there is objective evidence that an impairment loss on loans and advances or held to maturity investment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows of collateralized financial assets reflects the cash flows that may result from foreclosure, less cost of obtaining and selling the collateral. Off-balance sheet liabilities are also assessed individually and where necessary related provision are recognized as liabilities.

For the purpose of collective evaluation of impairment, the NLB Group uses migration matrices, which illustrate the expected migration of customers between internal rating classes. The probability of migration is assessed on the basis of past years' experience, i.e. annual migration matrices for different types of customers. These data may be adopted for the predicted future trends since historic experience does not necessarily reflect the actual economic movements. Exposures to individuals are additionally analyzed with regard to type of products. Based on the expected migration of clients to D and E rating class and assessment of average repayment rate for D and E rated customers, the NLB Group recognizes collective impairments.

If the amount of impairment subsequently decreases due to an event occurring after the write down, the reversal of the loss is recognized as a reduction in the allowance for loan impairment.

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

The objective criteria that the NLB Group uses to determine that a loan should be written off include:

- the debtor no longer performs his regular activities (termination of the legal entity);
- the NLB Group holds no adequate collateral to be used for repayment; and
- judicial recovery proceedings have been concluded.

b) Assets classified as available for sale

The NLB Group assesses at each reporting date whether there is objective evidence that available for sale financial assets are impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss is reclassified from other comprehensive income and recognized in the income statement as an impairment loss. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement; subsequent increases in their fair value after impairment are recognized in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income statement.

The following factors are considered in determining impairment losses on debt instruments:

- default or delinquency in interest or principal payments,
- liquidity difficulties of the issuer,
- breach of contract covenants or conditions,
- bankruptcy of the issuer,
- deterioration of economic and market conditions and
- deterioration in the credit rating of the issuer below the acceptable level.

Impairment losses recognized in the income statement are measured as the difference between the carrying amount of the financial asset and its current fair value. The current fair value of the instrument is its market price or discounted future cash flows, when the market price is not obtainable.

c) Renegotiated loans

Loans that are subject to either collective or individual impairment assessment and whose terms have been renegotiated due to deterioration of the borrower's financial position are no longer considered to be past due but are treated as new loans. Such loans continue to be discounted using the original effective interest rate.

d) Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognized in the financial statements at their fair values and are sold as soon as practical in order to reduce exposure (note 7.1.j). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable for the relevant assets categories.

In 2011 the NLB Group changed the accounting policy regarding the initial recognition for repossessed assets. Due to that repossessed assets in amount of EUR 1,288

thousand in NLB (December 31, 2010: EUR 1,292 thousand) and in the NLB Group in amount of EUR 28,709 thousand (December 31, 2010: EUR 27,572 thousand) were reclassified from non-current assets and disposal group held for sale to other assets (note 5.10.d).

2.14. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.15. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty liability is included in financial liabilities associated with the transferred assets. Securities sold subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest rate method.

2.16. Property and equipment

All items of property and equipment are initially recognized at cost. They are subsequently measured at cost less accumulated depreciation and any accumulated impairment loss.

Each year, the NLB Group assesses whether there are indications that assets may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognized as a loss in the income statement.

Items of property and equipment, which do not generate cash flows that are largely independent, are included in cash generating unit and later tested for possible impairment.

Depreciation is calculated on a straight-line basis over the assets' estimated useful lives. The following annual depreciation rates were applied:

NLB and NLB Group	in %	
Buildings	2	- 5
Leasehold improvements	5	- 20
Computers	14.3	- 50
Furniture and equipment	10	- 33.3
Motor vehicles	12.5	- 20

Depreciation does not begin until the assets are available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on each reporting date.

Gains and losses on the disposal of items of property and equipment are determined as a difference between the sale proceeds and their carrying amount, and are recognized in the income statement.

Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Subsequent costs that increase future economic benefits are recognized in the carrying amount of an asset and the replaced part, if any, is derecognized.

2.17. Intangible assets

Intangible assets include software licenses, goodwill (note 2.6.) and customer relationships. Intangible assets are stated at cost, less accumulated amortization and impairment losses.

Amortization is calculated on a straight-line basis at rates designed to write down the cost of intangible asset over its estimated useful life. The core banking system is amortized over a period of ten years, other software over a period of three to five years and customer relationships over a period of twelve to fifteen years.

Amortization does not begin until the assets are available for use.

2.18. Investment property

Investment property includes buildings held for leasing and not occupied by the NLB Group. Investment property is stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in fair value is recognized in the income statement. If there is a change in use due to the commencement of owner occupation, investment property is transferred to owner occupied property.

2.19. Non-current assets and disposal group classified as held for sale

Non-current assets and disposal group are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal group classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

During subsequent measurement, certain assets and liabilities of disposal group that are outside the scope

of IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g. deferred tax assets, assets arising from employee benefits, financial instruments, investment property measured at fair value and contractual rights under insurance contracts). Tangible and intangible assets are not depreciated. The effects of sale and valuation are included in the income statement as a gain or loss from non-current assets held for sale.

Liabilities directly associated with disposal groups are reclassified and presented separately in the statement of financial position.

2.20. Accounting for leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Lease agreements are accounted for in accordance with their classification as finance leases or operating leases at the inception of the lease. The key classification factor is the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or lessee.

The NLB Group as lessee

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Finance leases are recognized as an asset and liability at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Leased assets are depreciated in accordance with the NLB Group's policy over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the NLB Group will obtain ownership by the end of the lease term. Lease payments are apportioned between interest expenses and the reduction of the outstanding liability so as to produce constant periodic rate of interest on the remaining balance of the liability.

The NLB Group as lessor

Payments under operating leases are recognized as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

The NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is recognized as a receivable. Income from finance lease transactions is amortized over the lifetime of the lease using the effective interest rate method. Finance lease receivables are recognized at an amount equal to the net

investment in the lease, including the unguaranteed residual value.

Sale-and-leaseback transactions

The NLB Group also enters into sale-and-leaseback transactions (in which the NLB Group is primarily a lessor), under which the leased assets are purchased from and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

2.21. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with central banks, debt securities held for trading, loans to banks and debt securities not held for trading with an original maturity of up to 90 days. Cash and cash equivalents are disclosed under the cash flow statement.

2.22. Borrowings

Borrowings are initially recognized at fair value net of transaction costs. Borrowings are subsequently stated at amortized cost and any difference between the amount initially recognized and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

If the NLB Group purchases its own debt, it is derecognized from the statement of financial position. Any difference between the carrying amount of the purchased debt and the amount paid is recognized immediately in the income statement.

2.23. Provisions

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

2.24. Financial guarantees

Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of the customer to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized at fair value, which is normally evidenced by the fees received. The fees are amortized to the income statement over the contract term using the straight-line method. The NLB Group's liabilities under guarantees are subsequently measured at the greater of:

- the initial measurement, less amortization calculated to recognize fee income over the period of guarantee or
- the best estimate of the expenditure required to settle the obligation.

2.25. Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

2.26. Taxes

Income tax in the NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The tax rate for 2011 in Slovenia is 20% (2010: 20%).

Deferred income tax is calculated, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized if it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax related to the fair value re-measurement of available for sale investments and cash flow hedges is charged or credited directly to other comprehensive income.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the asset is realized or the liability is settled. At each reporting date, the NLB Group reviews the carrying amount of deferred tax assets and assesses future taxable profits against which temporary taxable differences can be utilized.

Deferred tax assets for temporary differences arising from investments in subsidiaries, associates and joint ventures are recognized only to the extent that it is probable that:

- the temporary differences will be reversed in the foreseeable future; and
- taxable profit will be available.

In 2011, the NLB Group recorded a net loss. The deferred tax assets recognized at December 31, 2011 are based on future profitability assumptions and business plans for future years. Tax assets may be adjusted in the event of changes to these assumptions.

In 2011 a new tax on balance sheet was enforced, which is in NLB recognized in other operating expenses (note 4.7.).

Tax base for balance sheet tax is balance sheet volume, which represents value of assets in Statement of financial position. It is calculated as the average value of monthly values on the last day of each month in the calendar year. Tax rate for balance sheet is 0,1%.

Calculated tax may be reduced by 0,167% of loans granted to nonfinancial firms and independent entrepreneurs. Loans are calculated as the average value of monthly net balances without allowances for impairments or change in fair value on the last day of each month in the calendar year. For the year 2011 due to the provision of Tax on Balance Sheet Act, average balances on balance sheet volume and loans are calculated using monthly balances from August onwards.

2.27. Fiduciary activities

The NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in the NLB Group's financial statements, as they do not represent assets of the NLB Group. Fee and commission income charged for this type of service is broken down by items in note 4.3.b). Further details on transactions managed on behalf of third parties are disclosed in note 5.29.

Based on the requirements of Slovenian legislation, the NLB Group has additionally disclosed in note 5.29. assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing and execution of orders and related custody activities.

2.28. Employee benefits

Employee benefits include jubilee long service benefits, retirement indemnity bonuses and termination benefits. Provisions for employee benefits are calculated by an independent actuary. The main assumptions included in the actuarial calculation are as follows:

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Discount rate	7.25%	7.75%	7.25% - 18%	7.75% - 18%
Number of employees eligible for benefits	3,616	3,864	6,537	7,092
Wage growth based on inflation, promotions and wage growth based on past years of service	2.00%	4.75%	2.00% - 9.50%	4.75% - 16%

According to legislation, employees retire after 35-40 years of service, when, if they fulfil certain conditions, they are entitled to a lump-sum severance payment. Employees are also entitled to a long service bonus for every ten years of service.

These obligations are measured at the present value of future cash outflows considering future salary increases and then apportioned to past and future employee service based on benefit plan terms and conditions. All gains and losses arising from changes in assumptions and experience adjustments are recognized immediately in the income statement.

The NLB Group pays contributions to the state pension schemes according to the local legislation.

NLB contributes 8.85% of gross salaries. Once contributions have been paid, the NLB Group has no further obligation. Contributions constitute costs in the period to which they relate and are disclosed in employee costs in the income statement.

2.29. Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by NLB's shareholders.

Treasury shares

If NLB or other member of the NLB Group purchases NLB's shares, the consideration paid is deducted from total shareholders' equity as treasury shares. If such shares are subsequently sold, any consideration received is included in equity. If NLB's shares are purchased by NLB itself or other NLB Group entities, NLB creates reserves for treasury shares in equity.

Share issue costs

Costs directly attributable to the issue of new shares are recognized in equity as a reduction in the share premium account.

2.30. Segment reporting

Operating segments are reported in a manner consistent with internal reporting to the management board which is the executive body that makes decisions, regarding the allocation of resources and assesses the performance of a specific segment.

All transactions between business segments are conducted on a normal course of business with intra-segment income and costs eliminated. Income and expenses directly associated with each segment are included in determining segment's performance. Income taxes are not allocated to segments (note 8.1.). The amount of net income arising from transactions between segments is disclosed in the item intersegment net income. Net income from external customers corresponds to the consolidated net income of the NLB Group.

In accordance with IFRS 8, the NLB Group has the following reportable segments: Corporate banking Slovenia, Retail banking Slovenia, Financial markets Slovenia, Foreign strategic markets, Foreign non-strategic markets and Other activities.

In 2011 the NLB Group changed the way, how operating segments are regularly reviewed, due to a new strategy and changed internal structure of the NLB Group. Operating segments are primary split on strategic and non-strategic and further strategic on key strategic components, that are Retail banking, Corporate banking and Financial Markets.

2.31. Critical accounting estimates and judgments in applying accounting policies

The NLB Group's financial statements are influenced by accounting policies, assumptions, estimates and management judgment. The NLB Group makes estimates and assumptions that affect the reported

amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on part experience and other factors, including expectations with regard to future events.

a) Impairment losses on loans and advances

The NLB Group reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the income statement, NLB Group verifies whether there are any data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio of loans. This evidence may include observable data indicating that the solvency of borrowers has deteriorated or that economic conditions and circumstances have deteriorated. Future cash flows in a group of financial assets are estimated based on past experience and losses on assets with credit risk characteristics similar to those assets in the group. Individual estimates are based on projections of future cash flows taking into account all relevant information regarding the financial position and solvency of a borrower. Projected cash flows are verified by risk department. Low-value exposures, including the majority of loans to individuals, are verified collectively. The methodology and assumptions used to estimate future cash flows are reviewed regularly to reduce differences between estimated and actual losses.

The NLB Group uses a sensitivity analysis to assess the impact of less probable negative events on impairments and provisions. Results of the simulation are based on the balance of loans and impairment as at December 31, 2011 and provide an assessment of required impairments within one year assuming the realization of the defined scenario.

Stress test using transition matrices

In the scenario historical transition matrices for financial institutions and other legal entities were used. The matrices for legal entities were also used for individuals. Exposure to the central government was not subject to the stress test. The methodology used is an extrapolation based on average transition matrices, which were calculated for the period in which the credit portfolio deteriorates. In addition, the transition matrices were corrected in a manner that excludes the possibility of client rating.

The scenario assumes that total credit exposure will not change in the one year period and the rating structure deterioration reflected through migration matrices will require additional impairments. As a result of the stress scenario, NLB will require additional impairments of EUR 261 million (2010: EUR 297 million) and the loan loss reserves to gross loan ratio will increase by 2.5 percentage points. For the NLB Group, the same stress scenario results in an increase in impairments of EUR 304 million (2010: EUR 344 million) and an increase in the coverage of the credit portfolio by impairments by 2.1 percentage points.

b) Fair value of financial instruments

The fair values of financial investments traded on the active market are based on current bid prices (financial assets) or offer prices (financial liabilities).

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable companies and other frequently used valuation models. These valuation models pretty much reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date. Management reviewed all applied models as at the reporting date to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading and available for sale financial assets.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with the methodology for the valuation of derivative financial instruments. The market exchange rates, interest rates, yield and volatility curves used in valuation are based on the market snapshot principle. Market data is saved daily at 4 p.m. and later used for the calculation of the fair values (market value, NPV) of financial instruments. NLB applies market yield curves for valuation (see note 5.6.).

c) Available for sale equity instruments

Available for sale equity instruments are impaired, if there has been a significant or prolonged decline in fair value below historical cost. The determination of what is significant or prolonged is based on assessments. In making these assessments, the NLB Group takes into account several factors, including share price volatility. Impairment may also be indicated by evidence regarding deterioration in the financial position of the instrument issuer, deterioration in sector performance, changes in technology, and a decline in cash flows from operating and financing activities.

Had all the declines in fair value below cost been considered significant or prolonged, NLB would have incurred additional impairment losses of EUR 8,441 thousand (2010: EUR 44,765 thousand), while the NLB Group would have incurred additional impairment losses of EUR 9,705 thousand (2010: EUR 46,027 thousand) from the reclassification of the negative valuation from the statement of comprehensive income to the income statement for the current year.

d) Held to maturity instruments

The NLB Group classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held to maturity investments. Before making this classification, the NLB Group assesses its intention and ability to hold such investments to maturity. If the NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available for sale financial assets. The investments would therefore be measured at fair value, resulting in a decrease in the value of investments of EUR 30,350 thousand (December 31, 2010: increase by EUR 7,937 thousand) and a corresponding other comprehensive loss.

e) Impairment of investment in subsidiaries, associates and joint ventures

The process of identifying and assessing the impairment of goodwill and other intangible assets is inherently uncertain, as the forecasting of cash flows requires the significant use of estimates, which themselves are sensitive to the assumptions used. The review of impairment represents management's best estimate of the factors such as:

- Future cash flows from individual investments depend on estimated cash flow for those periods for which formal plans are available and on assumptions regarding sustainability of and growth in cash flows in the future. The cash flows used represent management's assessment of future performance at the time of testing.
- The discount rate derived from the capital asset pricing model and used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control.

If recoverable amount is value in use, the discounted cash flow method is used (NLB Leasing, Ljubljana, NLB Leasing Maribor, Maribor and NLB Leasing Sarajevo). When the recoverable amount is fair value less costs to sell, the value was determined based on binding offers and the estimated liquidation value (NLB Factor, Bratislava, NLB Factoring, Ostrava, NLB Serbia, Belgrade and LHB Internationale Handelsbank, Frankfurt).

If the discount rates in the discounted cash flows model differ by +/- 1 percentage point, the estimated value in use of the equity investments would be lower in case of increased discount rate by a maximum of EUR 3.5 million and in case of decreased discount rate the value in use of equity investments would be higher by a maximum of EUR 2.5 million.

If the forecasted cash flows in the discounted cash flows model differ by +/- 10 percentage point, the estimated value in use of the equity investments would be higher in case of increased forecasted cash flows by a maximum of EUR 3 million and in case of decreased forecasted cash flows the value in use of equity investments would be lower by a maximum of EUR 4.7 million.

f) Goodwill and other intangible assets

In the consolidated financial statements, goodwill and other intangible assets are allocated to cash-generating units (hereinafter: CGUs), which represent the lowest level within the NLB Group at which these assets are monitored by management. Each NLB Group entity presents a separate CGU. The recoverable amount of each CGU was determined based on value-in-use calculations. The calculation of value in use is based on cash flow projections in the three-year financial plans approved by management. The NLB Group performed a test for impairment of goodwill and other intangible assets at the end of the year for all subsidiaries.

Additional information regarding impairment testing of goodwill and other intangible assets is disclosed in note 5.13.

The goodwill for NLB Prishtina, Prishtina, represents an individually significant amount of goodwill in the NLB Group and amounts to EUR 9,738 thousand. When testing for possible impairment, the following assumptions were used: a discount rate of 13%, a growth rate for residual value of 2% p.a. and a target capital ratio of 16%. According to the test, goodwill was not impaired. If the discount rate increased for more than 7 percentage points, the carrying amount of goodwill in NLB Group would have to be impaired in amount of EUR 9,738 thousand to nil.

g) Taxes

The NLB Group operates in countries governed by different laws. The deferred tax assets recognized at December 31, 2011 are based on profit forecasts for the next five-year period and take into account expected manner of recovery of the assets, that is, whether the value will be recovered through use, sale or liquidation. Changes in the assumptions as to the likely manner of recovery of assets could lead to the recognition of currently unrecognized deferred tax assets or to derecognition of previously created deferred tax assets. In case of changed assumptions of future operations the NLB Group will adequately adjust deferred tax income assets. The NLB Group believes that this effect would be immaterial since the majority of deferred tax assets relates to tax losses which, in accordance with the Slovenian Corporate Income Tax Act, can be carried forward indefinitely.

2.32. Implementation of new and revised International Financial Reporting Standards

During the current year, the NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: the IASB) and the International Financial Reporting Interpretations Committee (hereinafter: the IFRIC) and endorsed by the EU that are effective for accounting periods beginning on January 1, 2011.

Accounting standards and amendments to existing standards effective for annual periods beginning on January 1, 2011 that were endorsed by EU and adopted by us

- IAS 24 (amendment) - Related Party Disclosures (effective for annual periods beginning on or after January 1, 2011). The revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. If the exemption is applied, the entity shall disclose the nature and amount of each individually significant transaction. The amendment impacts presentation.
- 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. IAS 27 clarifies the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008). Amendments in IAS 34 refer to interim financial reporting and affect the presentation of the NLB Group's interim financial statement. Disclosure

requirements in IFRS 7 emphasize the link between quantitative and qualitative disclosures regarding the nature and extent of financial risk and eliminates disclosures for renegotiated loans that would otherwise be past due or impaired, while disclosures regarding the fair value of collateral is replaced with a more general requirement, i.e. clarification of effect of collateral on mitigating the credit risk. Amendments to IFRS 3 require measurement of non-controlling interests at fair value, in certain cases provides guidance on an acquirer's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination, and requires that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 are calculated using the previous IFRS 3. The amendment in IAS 1 clarifies the requirements for the presentation and content of the statement of changes in equity. Reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes. The amendments do not significantly affect the NLB Group's financial statements.

- IFRS 7 (amendment) - Disclosures, Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The NLB Group is currently assessing the impact of the amended standard on disclosures in its financial statements.
- Other revised standards and interpretations effective for the current period: IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, amendments to IAS 32 Classifications of Rights of Issues, clarifications in IFRIC 14 Prepayments of a Minimum Funding Requirement and amendments in IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters did not have any impact on these financial statements.

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

- IFRS 9 - Financial Instruments IFRS 9 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. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (i.e. it bears only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.
- Adoption of IFRS 9 is mandatory from January 1, 2015, while earlier adoption is permitted, but the EU has not yet endorsed it. The NLB Group is considering the implications of the standard, the impact on the NLB Group and the timing of its adoption.
- IAS 32 (amendments) - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.
- IFRS 7 (amendments) - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures of financial instruments on the NLB Group.
- IAS 1 (amendment) - Presentation of Financial Statements (effective for annual periods beginning on or after July 1, 2012, with earlier application permitted). The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments require additional disclosures to be made in the other comprehensive income section, such that items of other comprehensive income are grouped into two categories: items that will not be reclassified subsequently to profit or loss; and items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income must be allocated on the same basis. The NLB Group is currently evaluating the potential impact that the adoption of the amendments will have on the presentation of its consolidated financial statements.
- IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS 12 - Disclosures of Interests in Other Entities, a revised version of IAS 27 - Separate Financial Statements, which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements, and a revised version of IAS 28 - Investments in Associates and Joint Ventures, which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11. Standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted as long as each of the other standards is also applied early. However, entities are permitted to include any of the disclosure requirements in IFRS 12 into their consolidated financial statements without the early adoption of IFRS 12. The NLB Group is currently evaluating the potential impact that the adoption of the standards will have on its consolidated financial statements.
- IFRS 10 (new standard). The new standard replaces the parts of IAS 27 - Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC 12 Consolidation - Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that being control. In addition, IFRS 10 includes a new definition of control that contains three elements: control over an investee, exposure, or rights to variable returns from its involvement with the investee, and the ability to use its control over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.
- IFRS 11 (new standard). The new standard replaces IAS 31 - Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement, over

which two or more parties have joint control, should be classified. SIC 13 Jointly Controlled Entities - Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 must be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 may be accounted for using the equity method of accounting or proportionate accounting.

- IFRS 12 (new standard). The new standard is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.
- IFRS 13 (new standard) - Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013, with earlier application permitted). The standard establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a

framework for measuring fair value, and requires disclosures about fair value measurements. The scope of the standard is broad; it applies to both financial instruments and non-financial instruments for which other standards require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy, currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures, will be extended by IFRS 13 to cover all assets and liabilities within its scope. The NLB Group is currently evaluating the potential impact that the adoption of the standard will have on its consolidated financial statements.

- Other revised standards and interpretations: amendments to IAS 19 - Employee Benefits, relating to the recognition and measurement of defined benefit obligations and to the disclosure to all employee benefits, amendments to IFRS 1 - First time Adoption of IFRS, relating to severe hyperinflation and removal of fixed dates for first-time adopters, amendment to IAS 12 - Income Taxes, relating to the recovery of underlying assets – investment property measured at fair value and amendment to IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine are not expected to affect the NLB Group's financial statements.

3. CHANGES IN SUBSIDIARY HOLDINGS

Changes in 2011

a) Capital increase:

- The increase of share capital by cash in total amount of EUR 44,696 thousand was registered in NLB Leasing, Ljubljana, NLB Leasing, Sarajevo, Optima Leasing, Zagreb, LHB Internationale Handelsbank, Frankfurt, NLB Factoring, Ostrava, NLB Leasing Maribor, Maribor, NLB Nov penziski fond, Skopje and LHB Trade Zagreb.
- The increase of share capital by loan conversion in total amount of EUR 9,216 thousand was registered in NLB Srbija, Beograd and NLB Factor, Bratislava.

b) Other changes:

- NLB Leasing, Ljubljana sold its 100% ownership interest in NLB Leasing, Sarajevo to NLB.
- NLB Interfinanz, Zürich sold its 26.72% ownership interest in NLB Tutunska banka, Skopje to NLB.
- NLB Nova Penzija, Beograd, NLB Factor, Bratislava and NLB Tutunskabroker, Skopje were liquidated.
- NLB sold its 97.10% ownership interest in NLB Bank Sofia, Sofija (see note 5.10).
- Kreditni biro Sisbon, Ljubljana was established. The cost of establishing the company amounted to EUR 3.5 thousand. Ownership interest in Kreditni biro Sisbon, Ljubljana is 29.68%.

Changes in 2010

a) Acquisitions of additional interests in existing subsidiaries

- NLB increased its ownership interest in Plan, Banja Luka from 32.31% to 39.14%. Consideration given was EUR 90 thousand.

b) Capital increase

- The increase of share capital by cash in total amount of EUR 40,936 thousand was registered in FIN-DO, Domžale (paid in 2009), LHB Internationale Handelsbank, Frankfurt (paid in 2009), NLB Bank Sofia, Sofija, NLB banka, Beograd and NLB Leasing, Ljubljana.
- The increase of share capital by loan conversion in total amount of EUR 6,101 thousand was registered in NLB Montenegrobanka, Podgorica and NLB Srbija, Beograd.

c) Other changes

- NLB Leasing, Ljubljana sold its 100% ownership interest in NLB Leasing, Beograd to NLB.
- NLB Tuzlanska banka, Tuzla sold its 40% ownership interest in CBS Invest, Sarajevo to NLB.
- LHB Immobilien, Frankfurt sold its 60% ownership interest in CBS Invest, Sarajevo to NLB.
- NLB banka, Beograd sold its 24.61% ownership interest in Tekig Invest, Beograd.
- In May 2010 LHB Finance, Ljubljana merged with NLB.
- NLB Leasing, Ljubljana sold its 100% ownership interest in NLB Real Estate, Beograd to NLB Srbija, Beograd. In June 2010 NLB Real Estate, Beograd merged with NLB Srbija, Beograd.

4. NOTES TO THE INCOME STATEMENT

4.1. Interest income and expenses

Analysis by type of assets and liabilities

	NLB		NLB Group	
	2011	2010	2011	2010
Interest and similar income				
Loans and advances to customers	461,751	445,569	710,463	721,121
Derivatives - hedge accounting	60,902	65,470	60,902	65,470
Financial assets held for trading	43,751	36,003	43,408	35,342
Available for sale financial assets	35,450	35,675	50,776	50,153
Held to maturity investments	29,610	24,435	29,613	24,444
Loans and advances to banks	16,615	17,696	16,243	18,340
Deposits with central banks	2,069	1,638	5,064	4,091
TOTAL	650,148	626,486	916,469	918,961
Interest and similar expenses				
Due to customers	147,973	139,332	232,264	224,642
Debt securities in issue	63,896	72,387	64,329	72,815
Derivatives - hedge accounting	58,383	52,207	58,383	52,207
Borrowings from banks	47,179	42,166	70,371	67,228
Financial liabilities held for trading	37,821	31,872	37,930	32,015
Subordinated liabilities	22,389	19,921	25,148	22,449
Deposits from banks	1,548	1,283	2,915	4,467
Borrowings from other customers	828	139	6,844	5,036
Other liabilities	839	174	948	2,004
TOTAL	380,856	359,481	499,132	482,863
NET INTEREST	269,292	267,005	417,337	436,098

In 2011, interest income on individually impaired loans amounted to EUR 58,573 thousand for NLB (2010: EUR 33,340 thousand) and to EUR 77,600 thousand (2010: EUR 53,335 thousand) for the NLB Group.

4.2. Dividend income

	NLB		NLB Group	
	2011	2010	2011	2010
Investments in subsidiaries, associates and joint ventures	6,429	13,400	-	-
Available for sale financial assets	4,783	3,950	4,971	4,038
Financial assets held for trading	496	708	496	708
Financial assets designated at fair value through profit or loss	-	497	-	497
TOTAL	11,708	18,555	5,467	5,243

4.3. Fee and commission income and expenses

a) Fee and commission income and expenses relating to activities of NLB and the NLB Group

	NLB		NLB Group	
	2011	2010	2011	2010
Fee and commission income				
<i>Fee and commission income not relating to financial instruments at fair value through profit or loss</i>				
Credit cards and ATMs	44,283	47,103	55,286	58,100
Customer transaction accounts	34,899	32,210	39,440	34,793
<i>Other fee and commission income</i>				
Payments	36,512	39,218	64,894	68,624
Guarantees	15,562	16,600	20,413	21,092
Banking insurance	1,835	2,115	1,835	2,115
Investment funds	1,126	1,307	7,657	8,082
Other services	2,741	2,836	5,290	5,134
TOTAL	136,958	141,389	194,815	197,940
Fee and commission expenses				
<i>Fee and commission expense not relating to financial instruments at fair value through profit or loss</i>				
Credit cards and ATMs	22,002	23,187	29,179	29,549
<i>Other fee and commission expense</i>				
Payments	1,152	836	5,403	5,191
Investment banking	304	518	553	785
Guarantees	1	23	173	352
Deposit insurance	-	-	7,216	5,228
Other services	2,159	1,061	3,595	2,207
TOTAL	25,618	25,625	46,119	43,312
NET ACTIVITY FEE AND COMMISSION INCOME	111,340	115,764	148,696	154,628

Other services include fees from non-banking deposit valuables and safe custody, other agency services and fees from purchase and sale of foreign exchange currencies.

b) Fee and commission income and expenses relating to fiduciary activities

	NLB		NLB Group	
	2011	2010	2011	2010
Fee and commission income related to fiduciary activities				
Receipt, processing and execution of orders	446	501	578	505
Management of financial instruments portfolio	909	869	909	869
Investment advice	24	24	24	24
Initial or subsequent underwriting and/or placing of financial instruments on a firm commitment basis	60	-	60	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	196	130	196	130
Custody and similar services	4,003	3,385	4,129	3,506
Management of clients' account of non-materialized securities	428	466	428	466
Safekeeping of clients' financial instruments	-	2	15	13
Advice to companies on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of companies	47	39	67	39
TOTAL	6,113	5,416	6,406	5,552
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organizations	1,716	1,488	1,600	1,426
Fee and commission related to stock exchange and similar organizations	9	36	24	48
TOTAL	1,725	1,524	1,624	1,474
NET FEE INCOME RELATED TO FIDUCIARY ACTIVITIES	4,388	3,892	4,782	4,078
Total fee and commission income	143,071	146,805	201,221	203,492
Total fee and commission expenses	27,343	27,149	47,743	44,786
TOTAL a) and b)	115,728	119,656	153,478	158,706

4.4. Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss

	NLB		NLB Group	
	2011	2010	2011	2010
Available for sale financial assets				
- gains	4,079	2,177	5,765	4,425
- losses	(278)	(3,187)	(282)	(3,222)
Held to maturity investments				
- losses	(5,415)	-	(5,415)	-
Financial liabilities measured at amortized cost				
- gains	42,827	-	42,827	-
- losses	(14,021)	-	(14,021)	-
Loans and receivables				
- losses	-	(74)	-	(85)
TOTAL	27,192	(1,084)	28,874	1,118

In 2010 gains less losses from available for sale financial assets of NLB Group include gain on sale of previously impaired debt instruments in amount of EUR 1,525 thousand.

Net foreign exchange translation losses on financial assets and liabilities not classified as at fair value through profit or loss amounted to EUR 2,534 thousand at NLB in 2011 (2010: net gains EUR 35,641 thousand) and to EUR 1,149 thousand in the NLB Group (2010: net gains EUR 32,505 thousand).

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

	NLB		NLB Group	
	2011	2010	2011	2010
Equity instruments				
- gains	4,528	10,438	4,552	10,488
- losses	(12,562)	(5,564)	(12,577)	(5,594)
Foreign exchange trading				
- gains	29,389	35,914	40,850	109,671
- losses	(23,911)	(31,960)	(26,771)	(96,930)
Debt instruments				
- gains	340	830	357	1,049
- losses	(655)	(2,099)	(1,151)	(2,159)
Derivatives				
- currency	6,132	(32,636)	5,362	(32,536)
- interest rate	2,270	376	1,862	190
- cross currency interest rate	(2,724)	(7,946)	(2,724)	(7,946)
- securities	(1,421)	3,603	(1,421)	3,603
- other	(10)	34	(10)	34
TOTAL	1,376	(29,010)	8,329	(20,130)

The NLB Group uses currency derivatives to hedge its currency exposure. Therefore, their effects need to be considered in relation to foreign exchange differences in the income statement. From a business perspective, these derivatives represent effective hedging instruments that are not accounted for using hedge accounting principles. They are accounted for in the NLB Group's financial statements as financial instruments held for trading.

4.6. Other operating income

	NLB		NLB Group	
	2011	2010	2011	2010
Income from non-banking services	12,867	14,128	25,227	29,655
Rental income from investment property	94	99	3,570	1,371
Revaluation of investment property to fair value (note 5.12.)	50	71	113	160
Other operating income	1,831	2,316	8,118	10,262
TOTAL	14,842	16,614	37,028	41,448

Income from non-banking services includes income from IT services and income from operating leases of movable property.

4.7. Other operating expenses

	NLB		NLB Group	
	2011	2010	2011	2010
Membership fees	1,562	1,466	2,898	3,009
Changes in VAT deduction ratio	-	621	-	621
Revaluation of investment property to fair value (note 5.12.)	-	222	632	411
Balance sheet tax	3,131	-	3,131	-
Other taxes and compulsory public revenues	35	52	2,252	1,591
Other operating expenses	823	698	2,104	1,913
TOTAL	5,551	3,059	11,017	7,545

4.8. Administrative expenses

	NLB		NLB Group	
	2011	2010	2011	2010
Employee costs				
- gross salaries, compensations and other costs	108,047	111,058	168,675	172,316
- pension security contributions	8,250	8,515	13,446	13,668
- social security contributions	7,102	7,332	12,063	12,293
- employee benefits (note 5.20.c)	3,570	3,929	6,145	3,635
- post-employment benefits	(383)	720	1,150	(420)
- other long-term benefits	3,953	3,209	4,995	4,055
TOTAL	126,969	130,834	200,329	201,912
Other general and administrative expenses				
- services	41,234	45,666	54,699	60,118
- maintenance	9,758	10,999	14,334	15,564
- materials	8,682	8,407	15,547	15,752
- intellectual services	5,442	5,146	10,225	10,115
- rents	4,186	4,066	10,051	10,320
- <i>property</i>	2,395	2,631	8,023	8,407
- <i>software</i>	1,791	1,435	1,825	1,854
- <i>movable property</i>	-	-	203	59
- advertising	3,813	4,001	7,205	8,037
- insurance	4,030	3,628	7,518	7,736
- travel costs	1,497	1,836	2,643	3,270
- education, scholarships and tuition fees	776	1,001	1,103	1,328
- entertainment expenses	602	788	1,277	1,564
- other administrative expenses	38	59	39	121
TOTAL	80,058	85,597	124,641	133,925
TOTAL ADMINISTRATIVE EXPENSES	207,027	216,431	324,970	335,837
Number of employees	3,713	3,991	7,448	7,870
	NLB		NLB Group	
	2011	2010	2011	2010
External audit services				
Audit of annual report	258	259	1,143	1,153
Other audit services	82	-	215	63
Tax and other consulting	76	58	86	61
Other non-audit services	25	57	34	150
TOTAL	441	374	1,478	1,427

External audit services include payments to NLB's statutory auditor in the amount of EUR 365 thousand (2010: EUR 291 thousand), while the NLB Group made payments to the auditor in the amount of EUR 1,232 thousand (2010: EUR 1,099 thousand).

4.9. Depreciation and amortization

	NLB		NLB Group	
	2011	2010	2011	2010
Amortization of intangible assets (note 5.13.)	17,044	16,746	24,149	23,772
Depreciation of property and equipment (note 5.11.)	14,698	15,223	31,266	33,457
TOTAL	31,742	31,969	55,415	57,229

4.10. Provisions for other liabilities and charges

	NLB		NLB Group	
	2011	2010	2011	2010
Guarantees and commitments (note 5.20.b)	40,852	12,642	32,185	13,619
Restructuring provisions (note 5.20.e)	-	6,000	-	6,000
Provisions for premiums from National Saving Scheme (note 5.20.d)	55	252	55	252
Other provisions (note 5.20.f)	(229)	4,093	244	4,548
TOTAL CHARGE	40,678	22,987	32,484	24,419

4.11. Impairment charge

	NLB		NLB Group	
	2011	2010	2011	2010
Impairment of financial assets				
Available for sale financial assets (note 5.4.c)	32,591	46,722	32,601	46,679
Held to maturity investments (note 5.9.b)	2,683	-	2,681	2
Loans and advances to banks (note 5.16.b)	(75)	(773)	295	(8,252)
Loans to government (note 5.16.b)	(103)	313	331	2,078
Loans to financial organizations (note 5.16.b)	69,678	40,925	8,008	36,905
Loans to individuals (note 5.16.a)	(28,777)	26,608	(24,348)	39,379
<i>Granted overdrafts</i>	(6,037)	4,820	(5,966)	4,563
<i>Loans for houses and flats</i>	(25,738)	13,111	(19,318)	15,987
<i>Consumer loans</i>	4,658	8,574	4,508	4,015
<i>Other loans</i>	(1,660)	103	(3,572)	14,814
Loans to other customers (note 5.16.b)	287,747	178,381	447,089	301,312
<i>Loans to large corporate customers</i>	131,414	74,848	160,548	86,181
<i>Loans to small and medium size enterprises</i>	156,333	103,533	286,541	215,131
Other assets (note 5.16.c)	8,503	9,739	17,030	19,003
TOTAL	372,247	301,915	483,687	437,106
Impairment of other assets				
Investments in subsidiaries, associates and joint ventures (note 5.14.a)	53,884	51,932	-	-
Property and equipment (note 5.11.)	-	-	548	-
Intangible assets (note 5.13.)	-	-	-	12,146
Other	-	-	3,684	3,305
TOTAL	53,884	51,932	4,232	15,451
TOTAL IMPAIRMENT	426,131	353,847	487,919	452,557

Impairment charge includes exchange differences from allowance for impairment of financial assets measured at amortized cost. In 2011 these expenses amount to EUR 783 thousand (2010: expenses EUR 822 thousand) at NLB, while at the NLB Group expenses amount to EUR 979 thousand (2010: income EUR 3,624 thousand).

4.12. Income tax

	NLB		NLB Group	
	2011	2010	2011	2010
Current tax on profit	3,643	3,666	7,594	9,563
Deferred tax (note 5.21.)	(48,215)	(26,566)	(34,363)	(30,594)
TOTAL	(44,572)	(22,900)	(26,769)	(21,031)

Income tax differs from the amount of tax determined applying the basic tax rate as follows:

	NLB		NLB Group	
	2011	2010	2011	2010
Loss before tax	(277,773)	(206,323)	(266,852)	(226,965)
Tax calculated at prescribed rate 20% (in 2010: 20%)	(55,555)	(41,265)	(53,370)	(45,393)
Income not assessable for tax purposes	(2,309)	(3,709)	(1,002)	(2,235)
Expenses not deductible for tax purposes	4,017	11,147	28,286	25,311
Effect of unrecognized deferred tax assets on impairment of subsidiaries	8,197	7,760	-	-
Tax allowances	(115)	(157)	(163)	(216)
Effects of different tax rates in other countries	384	282	(1,258)	(2,061)
Withholding tax suffered in other countries for which no tax credit was available in Slovenia according to current tax legislation	3,136	3,320	3,136	3,320
Adjustment to tax in respect of prior periods	795	(278)	724	243
Other	(3,122)	-	(3,122)	-
TOTAL	(44,572)	(22,900)	(26,769)	(21,031)

Income tax rates within the NLB Group range from 9% to 30%.

The majority of income not recognized for tax purposes relates to dividend income, which can be deducted from the taxable profit, provided that all conditions prescribed by tax legislation are met.

Deferred tax assets were not recognized on temporary differences arising on impairment of investments in subsidiaries amounting to EUR 84.37 million as of December 31, 2011 (December 31, 2010: EUR 74.67 million). The NLB Group has no intention of disposing of these subsidiaries in foreseeable future.

Other represents a deferred tax asset arising from the impairment of the investment in a subsidiary. The deferred tax asset is expected to be realised in the foreseeable future.

4.13. Earnings per share

Basic earnings per share are calculated by dividing net profit by the weighted average number of issued ordinary shares, less treasury shares.

	NLB		NLB Group	
	2011	2010	2011	2010
Net loss attributable to the owners of the parent (in thousand of EUR)	(233,201)	(183,423)	(239,198)	(202,289)
Weighted average number of ordinary shares (in thousand)	10,329	8,871	10,329	8,871
Basic and diluted loss per share (in EUR per share)	(22.6)	(20.7)	(23.2)	(22.8)

Subordinated loans and issued debt securities have no future conversion options. Consequently, there are no dilutive potential ordinary shares.

5. NOTES TO THE STATEMENT OF FINANCIAL POSITION

5.1. Cash and balances with central banks

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash	86,363	92,551	162,664	165,373
Balances and obligatory reserves with central banks	218,612	111,878	671,281	599,522
TOTAL	304,975	204,429	833,945	764,895

Slovenian banks are required to maintain an obligatory reserve with NLB of Slovenia, relative to the volume and structure of its customer deposits. Other banks in the NLB Group maintain an obligatory reserve in accordance with local legislation. NLB and other banks in the NLB Group fulfill their mandatory reserve deposit requirements.

5.2. Trading assets

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Derivatives, excluding hedging instruments				
Swap contracts	76,619	62,315	76,013	61,919
- currency swaps	7,456	1,126	7,487	1,126
- interest rate swaps	68,932	60,132	68,295	59,736
- cross currency interest rate swaps	231	1,057	231	1,057
Options	9,728	13,834	9,728	13,834
- currency options	9,173	12,897	9,173	12,897
- interest rate options	555	937	555	937
Forward contracts	1,524	883	1,554	948
- currency forward	1,517	591	1,547	656
- cross currency interest rate forward - FRA	7	15	7	15
- securities forward	-	277	-	277
Total derivatives	87,871	77,032	87,295	76,701
Securities:				
Bonds	13,016	12,599	13,757	15,239
- governments*	-	-	-	1,460
- banks	637	4,239	637	4,239
- other issuers	12,379	8,360	13,120	9,540
Shares	43,670	65,164	43,707	65,307
Commercial bills	32,940	-	32,940	-
Other securities	2,001	444	2,001	444
Total securities	91,627	78,207	92,405	80,990
- quoted	9,162	18,590	9,940	21,373
- unquoted	82,465	59,617	82,465	59,617
TOTAL	179,498	155,239	179,700	157,691

* Macedonia and Bosnia and Herzegovina

The notional amounts of derivative financial instruments are disclosed in note 5.28.d).

During the year 2009 NLB and the NLB Group reclassified certain bonds from the trading category to loans and receivables. NLB and the NLB Group reclassified high quality corporate bonds that are not traded in the market and for which it has a positive intent and ability to hold for the foreseeable future or until maturity rather than trade in the short term.

The following table illustrates the carrying values and fair values of the assets reclassified:

NLB and NLB Group	Fair value at the date of reclassification	Carrying amount as at December 31, 2011	Fair value as at December 31, 2011	Carrying amount as at December 31, 2010	Fair value as at December 31, 2010	Carrying amount as at December 31, 2009	Fair value as at December 31, 2009
Financial assets held for trading reclassified to loans and receivables	69,925	84,429	53,985	75,928	65,048	72,030	63,350

The effective interest rates, determined on the day the bonds were reclassified, range from 4.15% – 4.23%.

NLB and NLB Group	Interest income in period			(Losses)/gains that would have been recognised if the assets had not been reclassified		
	2011	2010	2009	2011	2010	2009
Financial assets held for trading reclassified to loans and receivables	3,446	4,471	2,836	(11,063)	1,698	(6,575)

5.3. Financial instruments designated at fair value through profit or loss

a) Financial assets designated at fair value through profit or loss

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Shares	-	23,781	-	23,781
Private equity fund	2,074	-	2,074	-
Other investments	-	-	1,587	1,893
TOTAL	2,074	23,781	3,661	25,674

b) Financial liabilities designated at fair value through profit or loss

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Structured deposit	2,074	-	2,074	-
TOTAL	2,074	-	2,074	-

In NLB financial assets and liabilities in amount of EUR 2,074 thousand are designated at fair value through profit or loss, to reduce the accounting miss match that would otherwise arise. Financial liability, designated at fair value through profit or loss is the structure deposit from customers, from which the returns depend on the returns from private equity funds, classified as financial asset, measured at fair value through profit or loss.

In NLB Group, in addition to the above mentioned, financial assets that are designated at fair value through profit or loss, present investments in other funds that are managed and measured on a fair value basis.

5.4. Available for sale financial assets

a) Analysis by type of available for sale financial assets

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Bonds	1,032,244	1,178,181	1,194,559	1,407,272
- governments	791,509	828,289	857,077	855,247
- Republic of Slovenia	510,231	499,142	515,293	508,872
- Portugal	-	5,087	-	5,087
- Italy	-	30,420	-	30,420
- Ireland	4,797	4,674	4,797	4,674
- Greece	-	5,052	-	5,052
- Spain	-	4,882	-	4,882
- other EU members*	276,481	265,494	296,257	265,494
- non-EU members**	-	13,538	40,730	30,766
- banks	216,106	318,928	280,901	488,249
- other issuers	24,629	30,964	56,581	63,776
Certificates of deposit	-	-	112,578	63,873
Shares	131,050	164,698	133,712	167,364
Treasury bills	262,276	585,631	447,194	738,234
- governments	259,027	585,631	443,945	738,234
- Republic of Slovenia	27,067	-	42,428	-
- Italy	-	49,912	-	49,912
- other EU members***	231,960	535,719	255,515	535,719
- non-EU members****	-	-	146,002	152,603
- other issuers	3,249	-	3,249	-
Other securities	-	56,671	-	56,671
TOTAL	1,425,570	1,985,181	1,888,043	2,433,414

* Austria, Belgium, Germany, Finland, Nederland, France, Slovakia and other EU members

** Macedonia, Serbia, Bosnia and Herzegovina and other non-EU members

*** France, Belgium, Nederland, Germany, Slovakia

**** Macedonia, Montenegro, Serbia

b) Pledged assets

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Bonds	-	10,606	-	10,606
Treasury bills	-	9,987	-	9,987
TOTAL	-	20,593	-	20,593
TOTAL a) and b)	1,425,570	2,005,774	1,888,043	2,454,007
- quoted	1,404,612	1,939,772	1,657,858	2,153,832
- unquoted	20,958	66,002	230,185	300,175

c) Analysis of movements

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	2,005,774	2,481,655	2,454,007	2,862,571
Effects of translation of foreign operations to presentation currency	-	-	(4,875)	3,018
Merger of subsidiary	-	4,514	-	-
Transfer to non-current assets and disposal group classified as held for sale (note 5.10.b)	-	-	-	(300)
Additions	1,257,952	1,638,079	2,790,754	2,966,431
Disposals	(1,792,739)	(2,104,489)	(3,326,023)	(3,381,833)
Interest income (note 4.1.)	35,450	35,675	50,776	50,153
Exchange differences on monetary assets	(234)	418	1,281	415
Changes in fair values	(48,042)	(3,356)	(45,276)	231
Impairment (note 4.11.)	(32,591)	(46,722)	(32,601)	(46,679)
Balance at December 31	1,425,570	2,005,774	1,888,043	2,454,007

As at December 31, 2011, the value of equity instruments that the NLB and the NLB Group obtained by taking possession of collateral held as security and recognized in the statement of financial position is EUR 113,032 thousand (December 31, 2010: EUR 139,551 thousand).

Due to a decline in fair values, NLB impaired equity securities in the amount of EUR 32,591 thousand (2010: EUR 45,924 thousand), while the NLB Group impaired equity securities in the amount of EUR 32,601 thousand (2010: EUR 45,701 thousand).

As at December 31, 2011, the NLB Group includes financial investments with more than 20% interest in equity in the amount of EUR 23,733 thousand (December 31, 2010: EUR 35,418 thousand), that are not accounted for using the equity method, due to the fact, that the NLB Group does not have voting rights in general assembly's which means, that the NLB Group does not have significant influence over the company.

d) Revaluation reserve related to available for sale financial assets

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	7,954	9,830	6,306	6,207
Effects of translation of foreign operations to presentation currency	-	-	15	(22)
Net losses from changes in fair value	(86,782)	(50,078)	(84,026)	(46,448)
Losses transferred to net profit on disposal or impairment	28,790	47,732	27,118	47,001
Deferred income tax (note 5.22.)	11,746	470	11,100	(193)
Share of other comprehensive income of associates and joint ventures (note 5.14.c)	-	-	(2,659)	(239)
Balance at December 31	(38,292)	7,954	(42,146)	6,306
- debt securities	(37,276)	(1,554)	(41,521)	(5,357)
- equity securities	(1,016)	9,508	(625)	11,663

5.5. Derivatives for hedging purposes

NLB Group companies measure exposure to interest rate risk using a repricing gap analysis and by calculating the sensitivity of statement of financial position and off-balance-sheet items in terms of the economic value of equity. Portfolio duration is used as a measure of risk in the management of securities in the banking book.

NLB Group companies also use various derivatives, such as interest rate swaps, forward rate agreement (FRA), overnight indexed swap (OIS) and currency interest rate swap (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e. the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and assets items. Hedged liability items (e.g. issued securities, government deposits, etc.) accounted for the majority in nominal terms.

Hedge accounting rules (fair value and cash flow hedging) were applied in the hedging of interest rate risk using interest rate swaps. These hedge relationships are created in such a way that the characteristics of the hedge instrument and those of the hedged item match (i.e. the principal terms match), while the dollar-offset method is used to regularly measure hedge effectiveness retrospectively. Prospective testing of hedge effectiveness is carried out regularly for macro hedges, where the characteristics of both items in the hedge relationship do not fully match, by comparing the change in the fair value of both items with the shift in the yield curve.

Hedge accounting rules were not applied in economic hedges using FRA and CIRS. Thus, the effects of valuation are disclosed in the income statement.

In accordance with hedge accounting rules, the NLB Group hedged a capital investment in a foreign subsidiary (net investment hedge) during the second half of 2011. Similar to cash flow hedging, retrospective and prospective hedge effectiveness testing is carried out regularly.

a) Fair value hedge

NLB and NLB Group	Notional amount	Fair value	
		Asset	Liability
Interest rate swap			
31.12.2011	1,761,865	36,784	39,320
31.12.2010	2,703,967	35,421	22,949

In 2011 net losses on hedging instruments amounted to EUR 10,777 thousand in NLB and EUR 11,710 thousand in the NLB Group (2010: net gains EUR 13,749 thousand), net gains on hedged items were in NLB EUR 11,108 thousand and in NLB Group EUR 11,947 thousand (2010: net losses EUR 12,964 thousand).

b) Cash flow hedge

NLB and NLB Group	Notional amount	Fair value	
		Asset	Liability
Interest rate swap			
31.12.2011	68,917	-	3,819
31.12.2010	190,455	163	5,158

Future cash flows

NLB and NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
31.12.2011					
- Outflow	-	(899)	(1,135)	(2,925)	(2,632)
- Inflow	-	334	351	1,031	1,867
31.12.2010					
- Outflow	(694)	(1,028)	(3,747)	(4,945)	(3,187)
- Inflow	519	295	1,727	2,851	3,113

c) Hedge of a net investment in a foreign operation

NLB and NLB Group	Notional amount	Fair value	
		Asset	Liability
Currency forward			
31.12.2011	9,149	933	-
31.12.2010	-	-	-
Skupaj a), b) in c)			
31.12.2011	1,839,931	37,717	43,139
31.12.2010	2,894,422	35,584	28,107

Hedge of a net investment in a foreign operation is shown in NLB as fair value hedge, while in the NLB Group it is accounted for using the same principles as for cash flow hedge. Net gains from net investment hedge in amount of EUR 94 thousand are in NLB included in income statement in line fair value adjustments in hedge accounting, while in the NLB Group in other comprehensive income.

d) Revaluation reserve related to cash flow hedging

NLB and NLB Group	2011	2010
Balance at January 1	(3,029)	(4,231)
Net losses on hedging instruments	(2,564)	(2,796)
Transfer to income statement	2,683	4,299
Deferred income tax (note 5.22.)	(24)	(301)
Balance at December 31	(2,934)	(3,029)

There was no hedge ineffectiveness that neither NLB nor the NLB Group should have recognized in the income statement.

5.6. 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 NLB and the NLB 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 units 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 NLB Group considers relevant and observable market prices in its valuations where possible.

a) Financial instruments, measured at fair value in the financial statements

31.12.2011	NLB				NLB Group			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	63,627	101,867	14,004	179,498	64,405	101,291	14,004	179,700
<i>Debt instruments</i>	33,152	13,996	809	47,957	33,893	13,996	809	48,698
<i>Equity instruments</i>	30,475	-	13,195	43,670	30,512	-	13,195	43,707
<i>Derivatives</i>	-	87,871	-	87,871	-	87,295	-	87,295
Derivatives - hedge accounting	-	37,717	-	37,717	-	37,717	-	37,717
Financial assets designated at fair value through profit or loss	2,074	-	-	2,074	2,074	1,587	-	3,661
<i>Equity instruments</i>	2,074	-	-	2,074	2,074	1,587	-	3,661
Financial assets available for sale	1,287,665	123,162	14,743	1,425,570	1,727,189	145,548	15,306	1,888,043
<i>Debt instruments</i>	1,171,358	123,162	-	1,294,520	1,609,472	144,859	-	1,754,331
<i>Equity instruments</i>	116,307	-	14,743	131,050	117,717	689	15,306	133,712
Financial liabilities								
Financial instruments held for trading	-	90,527	3,196	93,723	-	90,930	3,196	94,126
<i>Derivatives</i>	-	90,527	3,196	93,723	-	90,930	3,196	94,126
Derivatives - hedge accounting	-	43,139	-	43,139	-	43,139	-	43,139
Financial liabilities designated at fair value through profit or loss	2,074	-	-	2,074	2,074	-	-	2,074

(All amounts in EUR thousand unless otherwise stated)

31.12.2010	NLB				NLB Group			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets								
Financial instruments held for trading	55,503	79,641	20,095	155,239	58,286	79,310	20,095	157,691
<i>Debt instruments</i>	9,670	2,609	764	13,043	12,310	2,609	764	15,683
<i>Equity instruments</i>	45,833	-	19,331	65,164	45,976	-	19,331	65,307
<i>Derivatives</i>	-	77,032	-	77,032	-	76,701	-	76,701
Derivatives - hedge accounting	-	35,584	-	35,584	-	35,584	-	35,584
Financial assets designated at fair value through profit or loss	22,929	-	852	23,781	22,929	1,893	852	25,674
<i>Equity instruments</i>	22,929	-	852	23,781	22,929	1,893	852	25,674
Financial assets available for sale	1,939,835	57,270	8,669	2,005,774	2,368,382	76,445	9,180	2,454,007
<i>Debt instruments</i>	1,783,806	57,270	-	1,841,076	2,210,521	76,122	-	2,286,643
<i>Equity instruments</i>	156,029	-	8,669	164,698	157,861	323	9,180	167,364
Financial liabilities								
Financial instruments held for trading	-	89,548	1,325	90,873	-	90,464	1,325	91,789
<i>Derivatives</i>	-	89,548	1,325	90,873	-	90,464	1,325	91,789
Derivatives - hedge accounting	-	28,107	-	28,107	-	28,107	-	28,107

b) Significant transfer of financial instruments between levels of valuation

31.12.2011	NLB and NLB Group					
	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Financial assets						
Financial instruments held for trading						
- equity instruments	-	5,897	-	-	(5,897)	-
Financial assets available for sale						
- debt instruments	(32,611)	-	-	32,611	-	-

Available for sale financial instruments reclassified from Level 1 ceased to be traded on an active market in June 2011 due to deteriorating liquidity on the financial markets, and were reported as Level 2 instruments in the above analysis as at December 31, 2011. For the same reason, available for sale financial instruments in amount of EUR 172,035 thousand and financial instruments held for trading in amount of EUR 5,721 thousand were reclassified in 2010 out of Level 1 and were reported as Level 2 instruments as at December 31 2010.

In August 2011, financial instruments held for trading were quoted on stock exchanged and were, therefore, reclassified from Level 3 and reported as Level 1 instruments in the above analysis as at December 2011.

31.12.2010	NLB and NLB Group					
	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Financial assets						
Financial instruments held for trading						
- debt instruments	(5,721)	-	-	5,721	-	-
Financial assets available for sale						
- debt instruments	(172,035)	1,500	(2,291)	173,535	(1,500)	791

c) Financial instruments in 3rd level regarding the fair value hierarchy

NLB	Financial instruments held for trading			Financial assets designated at fair value through profit or loss	Financial assets available for sale	Total financial assets	Financial liabilities held for trading
	Debt instruments	Equity instruments	Derivatives	Equity instruments	Equity instruments		Derivatives
Balance at January 1, 2010	1,296	19,334	11,118	996	7,602	40,346	457
Valuation:							
- through profit or loss	92	35	(10,989)	(1,177)	(4,404)	(16,443)	3,610
- recognized in other comprehensive income	-	-	-	-	1,948	1,948	-
Purchases	-	2	-	1,453	4,502	5,957	202
Sales, issues and settlements	(624)	-	(129)	(420)	(979)	(2,152)	(2,944)
Transfer out of level 3	-	(40)	-	-	-	(40)	-
Balance at December 31, 2010	764	19,331	-	852	8,669	29,616	1,325
Valuation:							
- through profit or loss	45	(240)	-	(7)	(8,787)	(8,989)	162
- recognized in other comprehensive income	-	-	-	-	840	840	-
Purchases	-	1	-	-	13,861	13,862	1,709
Sales, issues and settlements	-	-	-	(845)	-	(845)	-
Transfers into level 3	-	-	-	-	160	160	-
Transfer out of level 3	-	(5,897)	-	-	-	(5,897)	-
Balance at December 31, 2011	809	13,195	-	-	14,743	28,747	3,196

NLB Group	Financial instruments held for trading			Financial assets designated at fair value through profit or loss	Financial assets available for sale	Total financial assets	Financial liabilities held for trading
	Debt instruments	Equity instruments	Derivatives	Equity instruments	Equity instruments		Derivatives
Balance at January 1, 2010	1,296	19,334	11,118	996	8,798	41,542	457
Effects of translation of foreign operations to presentation currency	-	-	-	-	(56)	(56)	-
Transfer to non-current assets and disposal group classified as held for sale	-	-	-	-	(45)	(45)	-
Valuation:							
- through profit or loss	92	35	(10,989)	(1,177)	(4,388)	(16,427)	3,610
- recognized in other comprehensive income	-	-	-	-	1,948	1,948	-
Purchases	-	2	-	1,453	4,522	5,977	202
Sales, issues and settlements	(624)	-	(129)	(420)	(1,519)	(2,692)	(2,944)
Transfer out of level 3	-	(40)	-	-	(80)	(120)	-
Balance at December 31, 2010	764	19,331	-	852	9,180	30,127	1,325
Effects of translation of foreign operations to presentation currency	-	-	-	-	1	1	-
Valuation:							
- through profit or loss	45	(240)	-	(7)	(8,783)	(8,985)	162
- recognized in other comprehensive income	-	-	-	-	847	847	-
Purchases	-	1	-	-	13,901	13,902	1,709
Sales, issues and settlements	-	-	-	(845)	-	(845)	-
Transfers into level 3	-	-	-	-	160	160	-
Transfer out of level 3	-	(5,897)	-	-	-	(5,897)	-
Balance at December 31, 2011	809	13,195	-	-	15,306	29,310	3,196

In year 2011 the NLB Group recognized the following effects for financial instruments that are in Level 3 as at December 31, 2011:

- for financial instruments measured at fair value through profit or loss, a positive valuation in the amount of EUR 45 thousand (December 31, 2010: EUR 1,092 thousand), recognized in income statement; and
- for available for sale financial instrument, a valuation loss in the amount of EUR 8,787 thousand (December 31, 2010: EUR 3,957 thousand) and positive valuation in the amount of EUR 840 thousand (December 31, 2010: EUR 1,948 thousand) recognized in other comprehensive income.

The sensitivity to valuation assumptions disclosed in the table below represents by how much fair value for equity instruments in 3rd level, regarding the fair value hierarchy would increase or decrease had management used reasonably possible alternative valuation assumptions that are not based on observable market data.

Free cash flow method

	2011		2010	
	10%	-10%	10%	-10%
Available for sale financial assets				
Long term weighted average cost of capital	(1,338)	3,233	(2,189)	2,935
EBITDA margin	(2,822)	5,084	(4,447)	4,476
Long term free cash flow growth	(708)	2,223	(170)	199
Financial assets held for trading				
Long term weighted average cost of capital	(968)	1,303	(968)	1,303
EBITDA margin	(1,701)	1,735	(1,701)	1,735
Long term free cash flow growth	(671)	810	(671)	810

Comparable Companies Market Multiples Method

	2011		2010	
	10%	-10%	10%	-10%
Available for sale financial assets				
Market multiples	(354)	96	(186)	187

5.7. Loans and advances to banks

Analysis by type of advance

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Loans	223,974	249,103	157,127	210,243
Time deposits	198,109	228,412	399,704	488,709
Demand deposits	164,092	86,331	234,161	160,596
Reverse sale and repurchase agreements	10,193	9,269	10,193	9,269
Called guarantees	93	92	313	105
Purchased receivables	392	-	392	-
Finance lease receivables	-	-	17	73
	596,853	573,207	801,907	868,995
Allowance for impairment (note 5.16.b)	(2,232)	(2,979)	(18,153)	(18,767)
TOTAL	594,621	570,228	783,754	850,228

The NLB Group records securities received under repurchase agreements as a collateral in its off-balance sheet (it becomes the legal owner of said securities), while the borrower is entitled to the associated coupon interest and dividends. The NLB Group did not sell or pledge any of the securities it received as collateral during the financial years presented. The fair value of these securities amounted to EUR 10,046 thousand (December 31, 2010: EUR 9,280 thousand).

5.8. Loans and advances to customers

a) Analysis by type of advance

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Loans	9,139,430	9,590,767	11,243,832	11,931,540
Finance lease receivables	-	-	489,193	568,452
Overdrafts	244,471	264,143	384,224	406,032
Called guarantees	70,007	16,305	83,011	24,753
Credit card business	59,513	64,572	111,717	114,229
Reverse sale and repurchase agreements	1,801	9,387	1,801	9,387
	9,515,222	9,945,174	12,313,778	13,054,393
Allowance for impairment (note 5.16.)	(1,053,462)	(745,365)	(1,565,094)	(1,174,734)
TOTAL	8,461,760	9,199,809	10,748,684	11,879,659

The NLB Group records securities received under repurchase agreements as collateral in its off-balance sheet (it becomes the legal owner of said securities), while the borrower is entitled to the associated coupon interest and dividends. The NLB Group did not sell or pledge any of the securities it received as collateral during the financial years presented. The fair value of these securities amounted to EUR 1,990 thousand (December 31, 2010: EUR 6,253 thousand).

b) Analysis by sector

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Government	199,220	213,399	305,671	362,287
Financial organizations	1,119,894	1,129,480	375,329	379,961
Companies	5,174,103	5,836,238	7,268,902	8,307,192
Individuals	1,968,543	2,020,692	2,798,782	2,830,219
TOTAL	8,461,760	9,199,809	10,748,684	11,879,659

c) Finance leases

Loans and advances to customers in the NLB Group include finance lease receivables:

NLB Group	31.12.2011	31.12.2010
The gross investment in finance leases		
- not later than 1 year	213,877	235,299
- later than 1 year and not later than 5 years	214,269	288,667
- later than 5 years	137,937	137,846
	566,083	661,812
Unearned future finance income on finance leases	(76,890)	(93,360)
NET INVESTMENT IN FINANCE LEASES	489,193	568,452
- present value of minimum lease payments	489,193	568,452
The net investment in finance leases		
- not later than 1 year	198,815	205,705
- later than 1 year and not later than 5 years	175,696	244,723
- later than 5 years	114,682	118,024
TOTAL	489,193	568,452

The allowance for unrecoverable finance lease receivables included in the provision for loan losses amounted to EUR 83,842 thousand (December 31, 2010: EUR 60,317 thousand).

Finance and operating lease transactions are carried out by the NLB Group through specialized subsidiaries that offer a wide range of financing such as car leasing, real estate leasing, leasing of commercial and production equipment and others.

The majority of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). The majority of agreements are concluded for a non-cancellable period of between 48 and 60 months, with an unguaranteed residual value representing a purchase option typically between 1.6% and 2% of the gross investment.

Finance and operating leases of motor vehicles and operating leases of business premises represent the majority of agreements in which the NLB Group act as lessee.

5.9. Held to maturity investments

a) Analysis by type of held to maturity investments

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Bonds				
- governments	734,187	721,659	734,187	721,744
- Republic of Slovenia	405,527	348,105	405,527	348,105
- Portugal	-	10,008	-	10,008
- Italy	9,988	15,093	9,988	15,093
- Ireland	5,176	10,442	5,176	10,442
- Greece	1,748	15,947	1,748	15,947
- Spain	-	20,199	-	20,199
- other EU members*	311,748	301,865	311,748	301,865
- non-EU members**	-	-	-	85
- banks	69,108	38,210	69,108	38,210
Treasury bills				
- governments	264,696	-	264,696	-
- Republic of Slovenia	264,696	-	264,696	-
TOTAL	1,067,991	759,869	1,067,991	759,954
- quoted	1,065,931	759,869	1,065,931	759,954
- unquoted	2,060	-	2,060	-

*Austria, Belgium, Germany, Finland, Nederland, Slovakia, France and other EU members

** Bosnia and Herzegovina

b) Analysis of movements

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	759,869	579,316	759,954	579,490
Additions	429,283	250,986	429,283	250,986
Disposals	(36,547)	-	(36,547)	-
Redemptions	(111,791)	(95,095)	(111,881)	(95,199)
Interest income (note 4.1.)	29,610	24,435	29,613	24,444
Decrease of interest income due to reclassification of available for sale to held to maturity assets	250	227	250	235
Impairment (note 4.11.)	(2,683)	-	(2,681)	(2)
Balance at December 31	1,067,991	759,869	1,067,991	759,954

In 2011 the bank decreased the exposure from souvenir debt securities to Greece, Portugal, Spain and Ireland with a sale prior to maturity due to a significant deterioration of the credit worthiness of the issuers.

5.10. Non-current assets and disposal group classified as held for sale

a) Analysis by type of non-current assets and disposal group classified as held for sale

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Non-current assets held for sale	4,689	22,965	5,787	35,661
- <i>property and equipment</i>	4,689	6,844	5,787	35,661
- <i>capital investment</i>	-	16,121	-	-
Assets of disposal group classified as held for sale	-	-	-	88,247
Total non-current assets and disposal group held for sale	4,689	22,965	5,787	123,908
Liabilities of disposal group classified as held for sale	-	-	-	43,264

Non-current assets held for sale include business premises and apartments that are in the process of sale.

In 2010, NLB reclassified a capital investment in NLB Bank Sofia, Sofia to non-current assets held for sale. Prior to reclassification, the investment was impaired to fair value less costs to sell in the amount of EUR 9,045 thousand. In July 2011 the NLB Group sold 97.01% of interest in this subsidiary to a third party. When the investment was sold, NLB realized a further loss in the amount of EUR 1,570 thousand. Prior to disposal the NLB Bank Sofia, Sofia was included in the segment Foreign non-strategic markets (note 8.1.a).

b) Major classes of disposal group

NLB Group	31.12.2010
Assets	
Cash and balances with central bank	3,562
Available for sale financial assets	300
Loans and advances to banks	14,327
Loans and advances to customers	69,463
Property and equipment	281
Intangible assets	259
Other assets	24
Tax assets	31
Total assets classified as disposal group	88,247
Liabilities	
Deposits and borrowings	42,817
Provisions	33
Other liabilities	414
Total liabilities classified as disposal group	43,264
NET ASSETS OF DISPOSAL GROUP	44,983
Other comprehensive income	
Foreign currency translation adjustment (cumulative)	30

As at December 31, 2010 the total amount of loans and advances to banks has original maturity up to three months and is included within cash equivalents.

Notes 7.1. as at December 31, 2010 include also the data of NLB Bank Sofia, Sofia.

c) Disposal of subsidiary

The details of the assets and liabilities at the date of disposal and disposal consideration is as follows:

Cash and balances with central bank	2,813
Loans and advances to banks	1,157
Loans and advances to customers	51,001
Available for sale financial assets	301
Property and equipment	285
Intangible assets	266
Other assets	1,062
Non-current assets held for sale	214
Tax assets	31
Due to other banks	28,269
Due to customers	17,489
Other liabilities	463
Net assets of subsidiary	10,909
Non-controlling interest	(323)
Carrying amount of net assets disposed of	10,586
Total disposal consideration	14,551
Cash and cash equivalents in subsidiary sold	(3,969)
Cash inflow on disposal	10,582
The gain on disposal of the subsidiary comprises:	
Consideration for disposal of the subsidiary	14,551
Carrying amount of net assets disposed of, net of non-controlling interest	10,586
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	32
Gains from disposal of subsidiary in consolidated financial statements	3,997

d) Analysis of movements

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	22,965	6,408	123,908	28,662
Effects of translation of foreign operations to presentation currency	-	-	8	(117)
Additions	-	1,798	-	36,711
Merger of subsidiary	-	231	-	-
Transfer from property and equipment (note 5.11.)	1,570	31	2,016	1,887
Transfer to other assets	(1,288)	-	(28,709)	-
Transfer to investment property (note 5.12.)	-	-	-	(275)
Transfer to non-current assets and disposal group classified as held for sale	-	16,121	-	88,247
Disposals	(16,983)	(31)	(89,821)	(28,521)
Valuation	(1,575)	(1,593)	(1,615)	(2,686)
Balance at December 31	4,689	22,965	5,787	123,908

In 2011 the NLB Group has reclassified repossessed assets from non-current assets held for sale to other assets (note 5.15).

5.11. Property and equipment

2011	NLB				NLB Group			
	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
At January 1, 2011	212,589	92,093	78,074	382,756	370,576	112,460	170,412	653,448
Effects of translation of foreign operations to presentation currency	-	-	-	-	1,046	33	(198)	881
Additions	2,570	4,097	1,635	8,302	10,947	6,140	15,549	32,636
Disposals	-	(6,206)	(5,156)	(11,362)	(4,022)	(8,838)	(28,284)	(41,144)
Transfer from investment property (note 5.12.)	-	-	-	-	(385)	-	-	(385)
Transfer to non-current assets and disposal group held for sale (note 5.10.)	(2,518)	-	-	(2,518)	(2,964)	-	-	(2,964)
Impairment (note 4.11.)	-	-	-	-	(548)	-	-	(548)
At December 31, 2011	212,641	89,984	74,553	377,178	374,650	109,795	157,479	641,924
Depreciation and impairment								
At January 1, 2011	82,847	80,166	62,650	225,663	104,535	94,812	107,106	306,453
Effects of translation of foreign operations to presentation currency	-	-	-	-	95	32	(128)	(1)
Disposals	-	(6,200)	(3,427)	(9,627)	(1,419)	(8,551)	(13,089)	(23,059)
Charge for the year (note 4.9.)	6,081	4,975	3,642	14,698	9,163	7,449	14,654	31,266
Transfer to investment property (note 5.12.)	-	-	-	-	(187)	-	-	(187)
Transfer to non-current assets and disposal group held for sale (note 5.10.)	(948)	-	-	(948)	(948)	-	-	(948)
At December 31, 2011	87,980	78,941	62,865	229,786	111,239	93,742	108,543	313,524
Net carrying value								
At December 31, 2011	124,661	11,043	11,688	147,392	263,411	16,053	48,936	328,400
At January 1, 2011	129,742	11,927	15,424	157,093	266,041	17,648	63,306	346,995

2010	NLB				NLB Group			
	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
At January 1, 2010	208,562	93,156	77,598	379,316	370,812	114,879	172,459	658,150
Effects of translation of foreign operations to presentation currency	-	-	-	-	(4,974)	(399)	(964)	(6,337)
Merger of subsidiary	1,134	25	270	1,429	-	-	-	-
Additions	2,897	3,933	3,252	10,082	6,174	5,797	20,587	32,558
Disposals	-	(5,021)	(3,012)	(8,033)	(477)	(7,540)	(20,120)	(28,137)
Transfer from investment property (note 5.12.)	-	-	-	-	189	-	-	189
Transfer to non-current assets and disposal group held for sale (note 5.10.)	(38)	-	-	(38)	(1,182)	(277)	(1,516)	(2,975)
Transfer	34	-	(34)	-	34	-	(34)	-
At December 31, 2010	212,589	92,093	78,074	382,756	370,576	112,460	170,412	653,448
Depreciation and impairment								
At January 1, 2010	76,423	79,876	61,524	217,823	95,940	94,162	100,261	290,363
Effects of translation of foreign operations to presentation currency	-	-	-	-	(391)	(297)	(383)	(1,071)
Merger of subsidiary	354	25	183	562	-	-	-	-
Disposals	-	(5,011)	(2,927)	(7,938)	(44)	(6,971)	(8,474)	(15,489)
Charge for the year (note 4.9.)	6,043	5,276	3,904	15,223	9,151	8,112	16,194	33,457
Transfer to non-current assets held for sale (note 5.10.)	(7)	-	-	(7)	(155)	(194)	(458)	(807)
Transfer	34	-	(34)	-	34	-	(34)	-
At December 31, 2010	82,847	80,166	62,650	225,663	104,535	94,812	107,106	306,453
Net carrying value								
At December 31, 2010	129,742	11,927	15,424	157,093	266,041	17,648	63,306	346,995
At January 1, 2010	132,139	13,280	16,074	161,493	274,872	20,717	72,198	367,787

Assets leased under finance leases in the NLB Group as at December 31, 2011 amounted to EUR 64 thousand for motor vehicles (December 31, 2010: EUR 121 thousand), EUR 1,198 thousand for land (December 31, 2010: EUR 1,179 thousand) and EUR nil for other equipment (December 31, 2010: EUR 17 thousand). NLB has no assets held under finance leases as at December 31, 2011 and December 31, 2010.

The value of assets received by taking possession of collateral and included in property and equipment by NLB and NLB Group amounted to EUR 7 thousand (December 31, 2010: EUR 7 thousand).

The net carrying value of assets leased out by the NLB Group under operating leases was EUR 20,572 thousand as at December 31, 2011 (December 31, 2010: EUR 28,471 thousand). Majority of assets (December 31, 2011: 78.4%, December 31, 2010: 82.0%) leased out relates to motor vehicles.

5.12. Investment property

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	1,637	1,788	51,705	26,112
Effects of translation of foreign operations to presentation currency	-	-	120	(22)
Additions	-	-	13,564	32,176
Disposals	-	-	(6,311)	(6,396)
Transfer from/(to) property and equipment (note 5.11.)	-	-	198	(189)
Transfer from non-current assets held for sale (note 5.10.d)	-	-	-	275
Net valuation to fair value (note 4.6. and 4.7.)	50	(151)	(519)	(251)
Balance at December 31	1,687	1,637	58,757	51,705

The NLB Group has no interests in properties held under operating leases that should be classified and accounted for as investment property. The NLB Group disclosed operating expenses arising from investment properties leased to others in amount of EUR 112 thousand in its 2011 income statement (2010: EUR 78 thousand).

5.13. Intangible assets

2011	NLB		NLB Group		
	Software licenses	Software licenses	Goodwill	Customer relationship	Total
Cost					
At January 1, 2011	169,414	186,743	32,790	71,980	291,513
Effects of translation of foreign operations to presentation currency	-	14	-	-	14
Additions	5,990	8,018	-	-	8,018
Write offs	-	(138)	-	-	(138)
At December 31, 2011	175,404	194,637	32,790	71,980	299,407
Amortization and impairment					
At January 1, 2011	95,920	106,311	11,064	27,649	145,024
Effects of translation of foreign operations to presentation currency	-	24	-	-	24
Charge for the year (note 4.9.)	17,044	19,490	-	4,659	24,149
Write offs	-	(118)	-	-	(118)
At December 31, 2011	112,964	125,707	11,064	32,308	169,079
Net carrying value					
At December 31, 2011	62,440	68,930	21,726	39,672	130,328
At January 1, 2011	73,494	80,432	21,726	44,331	146,489

(All amounts in EUR thousand unless otherwise stated)

2010	NLB		NLB Group		Total
	Software licenses	Software licenses	Goodwill	Customer relationship	
Cost					
At January 1, 2010	157,654	173,562	32,790	79,664	286,016
Effects of translation of foreign operations to presentation currency	-	(295)	-	-	(295)
Merger of subsidiary	42	-	-	-	-
Additions	11,730	15,464	-	-	15,464
Disposals	(12)	(482)	-	-	(482)
Transfer to non-current assets and disposal group held for sale (note 5.10.b)	-	(417)	-	(7,684)	(8,101)
Write offs	-	(1,089)	-	-	(1,089)
At December 31, 2010	169,414	186,743	32,790	71,980	291,513
Amortization and impairment					
At January 1, 2010	79,156	88,602	1,136	28,457	118,195
Effects of translation of foreign operations to presentation currency	-	(211)	-	-	(211)
Merger of subsidiary	18	-	-	-	-
Disposals	-	(69)	-	-	(69)
Charge for the year (note 4.9.)	16,746	19,114	-	4,658	23,772
Transfer to non-current assets and disposal group held for sale (note 5.10.b)	-	(158)	-	(7,684)	(7,842)
Impairments (note 4.11.)	-	-	9,928	2,218	12,146
Write offs	-	(967)	-	-	(967)
At December 31, 2010	95,920	106,311	11,064	27,649	145,024
Net carrying value					
At December 31, 2010	73,494	80,432	21,726	44,331	146,489
At January 1, 2010	78,498	84,960	31,654	51,207	167,821

In 2011, the NLB Group did not impair any goodwill or additionally identified intangible assets (eg. customer relationship) as the impairment test showed no signs for possible impairments. In 2010 the impairment of goodwill was EUR 9,928 thousand and impairment of additionally identified intangible assets in the amount of EUR 2,218 thousand. Impairments were primarily the result of lower recoverable amounts of investments, as well as lower profitability of identified customer relationships.

The recoverable amounts of the cash-generating units, which include the test of the impairment of goodwill, were based on a value in use calculation, including the following assumptions that represent the past experience:

- a five-year financial plan approved by the Management and Supervisory Boards;
- growth in cash flows for residual period in the amount of 2%;
- a pre-tax discount rate of between 11% and 13% and
- target capital adequacy ratios of an individual bank of between 13% to 17%.

5.14. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

NLB	31.12.2011	31.12.2010
Banks	405,309	382,346
Other financial organizations	59,838	59,514
Enterprises	16,833	25,234
TOTAL	481,980	467,094

As at December 31, 2011 NLB, pursuant to the requirements of IFRS and its internal methodology, calculated the recoverable amount of each investment. In 2011 NLB recognized an impairment loss in the amount of EUR 53,884 thousand (note 4.11). Impaired investments in NLB Leasing, Ljubljana, NLB Leasing Maribor, Maribor, NLB Leasing, Sarajevo, NLB Factoring, Ostrava, NLB Factor, Bratislava, NLB Srbija, Beograd and LHB Internationale Handelsbank, Frankfurt are included in segment Non-strategic markets and activities.

In 2010 NLB recognized an impairment loss in the amount of EUR 51,932 thousand (note 4.11). Impaired investment in CBS Invest, Sarajevo is included in segment Foreign strategic markets, impaired investments in NLB Leasing, Ljubljana, NLB Leasing Maribor, Maribor, NLB Factoring, Ostrava, NLB Factor, Bratislava, NLB Nova penzija, Beograd, NLB Banka Sofia, Sofija and NLB banka, Beograd are included in segment Non-strategic markets and activities.

The recoverable amount of the cash-generating unit was based on a value in use calculation, including the following assumptions that represent the past experience:

- a five-year financial plan approved by the Management and Supervisory Boards;
- growth in cash flows for residual period in the amount of 2%;
- a pre-tax discount rate of between 11% and 13% and
- target capital adequacy ratios of an individual bank of between 13% to 17%.

The financial plans of individual companies are based on past experiences and an assessment of future economic conditions that will impact an individual bank's operations and the quality of its credit portfolio. The discount rates used are based on an assessment of the general and specific risks to which an individual bank's operations are exposed. The discount rates are calculated on the basis of the CAPM model.

Majority of impact relates to effects derived from financial crisis, larger impairment provisions, lower interest rates margins, large decline in GDP for Balkans region and change in capital regulation which requires additional capital increases.

Subsidiaries as at December 31, 2011 comprised:

	Nature of Business	Country of Incorporation	Equity as at December 31, 2011	Profit/(loss) for the period 2011	NLB's shareholding %*	NLB's voting rights %*	NLB Group's shareholding %*	NLB Group's voting rights %*
LHB Internationale Handelsbank AG, Frankfurt/Main	Banking	Republic of Germany	43,576	(24,077)	100	100	100	100
LHB Immobilien GmbH, Frankfurt/Main	Property	Republic of Germany	2,046	-	-	-	100	100
LHB Trade d.o.o., Zagreb	Trading	Republic of Croatia	195	12	-	-	100	100
NLB Tutunska Banka a.d., Skopje	Banking	Republic of Macedonia	79,161	9,766	86.98	86.98	86.98	86.98
NLB Montenegrobanka a.d., Podgorica	Banking	Republic of Montenegro	45,500	1,154	89.95	89.95	89.95	89.95
NLB banka a.d., Beograd	Banking	Republic of Serbia	60,469	(11,528)	99.98	99.98	99.98	99.98
Conet a.d., Novi Sad	Trade	Republic of Serbia	432	(35)	-	-	94.85	94.85
Convest a.d., Novi Sad	Finance	Republic of Serbia	331	3	-	-	100	100
NLB Tuzlanska banka d.d., Tuzla	Banking	Republic of Bosnia and Herzegovina	36,260	1,779	96.30	96.32	96.30	96.32
NLB Razvojna banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	47,103	5,464	99.85	99.85	99.85	99.85
NLB Prishtina sh.a., Priština	Banking	Republic of Kosovo	38,203	4,357	81.21	81.21	81.21	81.21
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	12,630	(24,128)	100	100	100	100
NLB Leasing Sofija E.o.o.d., Sofija	Finance	Republic of Bulgaria	(4,916)	(1,282)	-	-	100	100
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	(18,081)	(15,313)	-	-	99.15	99.15
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	383	94	-	-	100	100
NLB Leasing Maribor d.o.o., Maribor	Finance	Republic of Slovenia	668	(2,717)	100	100	100	100
NLB Leasing Koper d.o.o., Koper	Finance	Republic of Slovenia	4,963	297	100	100	100	100
OL Nekretnine d.o.o., Zagreb	Property	Republic of Croatia	(17,035)	(7,038)	-	-	75.10	75.10
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(8,764)	(14,876)	100	100	100	100
NLB Leasing d.o.o., Beograd	Finance	Republic of Serbia	3,322	125	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	4,459	(142)	100	100	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	37,898	308	100	100	100	100
NLB InterFinanz Praha s.r.o., Praga	Finance	Czech Republic	42	(96)	-	-	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	59	27	-	-	100	100
NLB Factoring a.s., Ostrava	Finance	Czech Republic	(36,225)	(32,094)	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	4,302	1,139	100	100	100	100
Plan a.d., Banja Luka	Architecture services	Republic of Bosnia and Herzegovina	672	(34)	39.14	39.14	88.14	88.14
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	3,742	471	51	100	100	100
FIN-DO d.o.o., Domžale	Property	Republic of Slovenia	16	(79)	100	100	100	100
NLB Propria d.o.o., Ljubljana	Property	Republic of Slovenia	11,867	815	100	100	100	100
NLB Srbija d.o.o., Beograd	Property	Republic of Serbia	4,057	(324)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Property	Republic of Bosnia and Herzegovina	(303)	(157)	100	100	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	558	34	100	100	100	100

Subsidiaries as at December 31, 2010 comprised:

	Nature of Business	Country of Incorporation	Equity as at December 31, 2010	Profit/(loss) for the period 2010	NLB's shareholding %*	NLB's voting rights %*	NLB Group's shareholding %*	NLB Group's voting rights %*
LHB Internationale Handelsbank AG, Frankfurt/Main	Banking	Republic of Germany	60,994	(7,649)	100	100	100	100
LHB Immobilien GmbH, Frankfurt/Main	Property	Republic of Germany	2,046	-	-	-	100	100
LHB Trade d.o.o., Zagreb	Trading	Republic of Croatia	148	(456)	-	-	100	100
NLB Tutunska Banka a.d., Skopje	Banking	Republic of Macedonia	71,368	7,027	86.98	86.98	86.98	86.98
NLB Tutunska broker a.d., Skopje	Finance	Republic of Macedonia	3,523	103	-	-	100	100
NLB Montenegrobanka a.d., Podgorica	Banking	Republic of Montenegro	44,385	904	89.95	89.95	89.95	89.95
NLB banka a.d., Beograd	Banking	Republic of Serbia	69,139	177	99.98	99.98	99.98	99.98
Conet a.d., Novi Sad	Trade	Republic of Serbia	448	(262)	-	-	94.85	94.85
Convest a.d., Novi Sad	Finance	Republic of Serbia	343	51	-	-	100	100
NLB Tuzlanska banka d.d., Tuzla	Banking	Republic of Bosnia and Herzegovina	34,529	259	96.30	96.32	96.30	96.32
NLB Razvojna banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	44,514	4,063	99.85	99.85	99.85	99.85
NLB Prishtina sh.a., Priština	Banking	Republic of Kosovo	33,864	4,226	81.21	81.21	81.21	81.21
NLB Banka Sofia a.d., Sofija	Banking	Republic of Bulgaria	11,675	(7,162)	97.01	97.01	97.01	97.01
NLB Leasing d.o.o., Ljubljana	Finance	Republic of Slovenia	20,759	(18,051)	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	(3,393)	(3,724)	-	-	100	100
NLB Leasing Sofija E.o.o.d., Sofija	Finance	Republic of Bulgaria	(3,636)	(1,322)	-	-	100	100
Optima Leasing d.o.o., Zagreb	Finance	Republic of Croatia	(10,397)	(11,475)	-	-	75.10	75.10
NLB Leasing Podgorica d.o.o., Podgorica	Finance	Republic of Montenegro	1,289	(621)	-	-	100	100
NLB Leasing Maribor d.o.o., Maribor	Finance	Republic of Slovenia	1,380	(1,872)	100	100	100	100
NLB Leasing Koper d.o.o., Koper	Finance	Republic of Slovenia	4,666	321	100	100	100	100
OL Nekretnine d.o.o., Zagreb	Property	Republic of Croatia	(10,285)	(9,292)	-	-	75.10	75.10
NLB Leasing d.o.o., Beograd	Finance	Republic of Serbia	3,084	(3,850)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje	Finance	Republic of Macedonia	4,689	397	100	100	100	100
NLB InterFinanz AG, Zürich	Finance	Switzerland	33,707	1,808	100	100	100	100
NLB InterFinanz Praha s.r.o., Praga	Finance	Czech Republic	136	106	-	-	100	100
NLB InterFinanz d.o.o., Beograd	Finance	Republic of Serbia	34	4	-	-	100	100
NLB Factoring a.s., Ostrava	Finance	Czech Republic	(10,412)	(12,870)	100	100	100	100
NLB Factor a.s., Bratislava "v likvidaciji"	Finance	Slovak Republic	78	118	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	4,613	1,450	100	100	100	100
Plan a.d., Banja Luka	Architecture services	Republic of Bosnia and Herzegovina	704	(16)	39.14	39.14	88.14	88.14
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	3,209	511	51	100	100	100
NLB Nova penzija a.d., Beograd	Insurance	Republic of Serbia	378	(593)	62.71	62.71	85.71	85.71
FIN-DO d.o.o., Domžale	Property	Republic of Slovenia	95	4	100	100	100	100
NLB Propria d.o.o., Ljubljana	Property	Republic of Slovenia	11,052	69	100	100	100	100
NLB Srbija d.o.o., Beograd	Property	Republic of Serbia	(1,217)	(3,655)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Property	Republic of Bosnia and Herzegovina	(149)	(202)	100	100	100	100
Prospera plus d.o.o., Ljubljana	Tourist and catering trade	Republic of Slovenia	524	53	100	100	100	100

* Ownership interest and voting rights are calculated after the deduction of treasury shares.

b) Analysis by type of investment in associates and joint ventures

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Banks	56,476	56,476	82,650	90,983
Other financial organizations	7,938	7,938	17,184	15,424
Enterprises	1,584	1,581	5,488	5,353
TOTAL	65,998	65,995	105,322	111,760

Associates as at December 31, 2011 comprised:

	Nature of Business	Country of Incorporation	Total assets	Total liabilities	Equity as at December 31, 2011	Profit for 2011	Total revenue	Shareholding %*	Voting rights %
Banka Celje d.d., Celje	Banking	Republic of Slovenia	2,490,913	2,309,580	181,333	(14,875)	135,372	40.99	49.42
Adria Bank AG, Wien	Banking	Republic of Austria	229,771	193,416	36,355	(96)	12,723	28.46	28.46
Bankart d.o.o., Ljubljana	Card Processing	Republic of Slovenia	17,387	3,778	13,609	408	20,084	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	328,862	312,970	15,892	2,522	6,188	28.13	28.13
ICJ d.o.o., Domžale**	Real Estate	Republic of Slovenia	8,507	8,277	230	(7)	577	50	50
Kreditni biro SISBON, d.o.o.	Credit bureau	Republic of Slovenia	12	-	12	-	-	29.68	29.68

Associates as at December 31, 2010 comprised:

	Nature of Business	Country of Incorporation	Total assets	Total liabilities	Equity as at December 31, 2010	Profit for 2010	Total revenue	Shareholding %*	Voting rights %
Banka Celje d.d., Celje	Banking	Republic of Slovenia	2,598,080	2,398,154	199,926	4,500	132,203	40.99	49.42
Adria Bank AG, Wien	Banking	Republic of Austria	226,480	191,319	35,161	1,889	11,904	28.46	28.46
Bankart d.o.o., Ljubljana	Card Processing	Republic of Slovenia	17,926	4,662	13,264	751	19,679	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	337,579	323,191	14,388	1,576	5,176	28.13	28.13
ICJ d.o.o., Domžale**	Real Estate	Republic of Slovenia	8,252	8,014	238	-	738	50	50

*Ownership interest and voting rights are calculated after the deduction of treasury shares.

** ICJ d.o.o., Domžale is not treated as a joint venture as there is no contractual agreement between shareholders for joint control.

Joint ventures as at December 31, 2011 comprised:

	Nature of Business	Country of Incorporation	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity as at December 31, 2011	Profit for 2011	Total revenue	Voting rights %
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	19,755	184,597	3,681	181,679	18,992	3,278	36,462	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	334,019	4,466	324,831	7,211	6,443	1,859	37,183	50

Joint ventures as at December 31, 2010 comprised:

	Nature of Business	Country of Incorporation	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity as at December 31, 2010	Profit for 2010	Total revenue	Voting rights %
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	11,874	174,220	4,014	165,479	16,601	3,236	36,337	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	328,059	4,686	278,648	47,941	6,156	(4,743)	33,129	50

c) Movements of investments in associates and joint ventures

NLB Group	2011	2010
Balance at January 1	111,760	110,520
Effects of translation of foreign operations to presentation currency	(6)	(173)
Share of results before tax	(3,667)	5,317
Share of tax	849	(1,461)
Net losses not recognised in the income statement (note 5.4.d)	(2,659)	(239)
Dividends received	(934)	(1,891)
Disposal of associate	-	(267)
Other	(21)	(46)
Balance at December 31	105,322	111,760

5.15. Other assets

Analysis by type of assets

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Financial assets				
Receivables from purchase agreements for equity securities	25,705	19,327	25,705	19,327
Credit card receivables	7,323	7,235	9,725	8,593
Receivables in the course of collection	6,611	13,438	9,407	15,366
Fees and commissions due	4,488	3,453	6,652	5,076
Debtors	1,622	1,905	24,290	14,812
Accrued fees and commissions	6	221	1,020	477
Dividends	5	-	5	-
Other financial assets	7,762	6,770	16,547	13,361
Non-financial assets				
Deferred expenses	1,830	2,134	10,319	9,554
Assets, received as collateral	1,352	65	76,043	25,434
Claim for taxes and other dues	988	1,612	6,126	6,793
Inventories	277	280	11,203	15,750
Prepayments	54	198	8,536	6,305
	58,023	56,638	205,578	140,848
Allowance for impairment (note 5.16.c)	(20,778)	(14,227)	(41,650)	(26,603)
TOTAL	37,245	42,411	163,928	114,245

Receivables in the course of collection are temporary balances which, owing to the functionality of the information support system, are transferred to the appropriate item in the days following their occurrence.

5.16. Movements in allowance for impairment of banks, loans and advances to customers and other assets

a) Loans and advances to individuals

NLB	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance at January 1, 2010	15,412	35,351	22,928	3,025	76,716
Impairment (note 4.11.)	4,820	13,111	8,574	103	26,608
Write offs	(1,241)	(638)	(27)	(47)	(1,953)
Balance at December 31, 2010	18,991	47,824	31,475	3,081	101,371
Impairment (note 4.11.)	(6,037)	(25,738)	4,658	(1,660)	(28,777)
Write offs	(781)	(170)	(163)	(38)	(1,152)
Balance at December 31, 2011	12,173	21,916	35,970	1,383	71,442

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance at January 1, 2010	17,946	42,651	58,535	20,029	139,161
Effects of translation of foreign operations to presentation currency	(57)	(21)	(789)	(7)	(874)
Impairment (note 4.11.)	4,563	15,987	4,015	14,814	39,379
Write offs	(1,241)	(638)	(403)	(10,453)	(12,735)
Other	-	-	-	517	517
Transfer to non-current assets or disposal group held for sale	-	(4)	(261)	-	(265)
Balance at December 31, 2010	21,211	57,975	61,097	24,900	165,183
Effects of translation of foreign operations to presentation currency	7	(20)	(79)	104	12
Impairment (note 4.11.)	(5,966)	(19,318)	4,508	(3,572)	(24,348)
Write offs	(781)	(480)	(179)	(1,552)	(2,992)
Balance at December 31, 2011	14,471	38,157	65,347	19,880	137,855

b) Loans and advances to legal entities

NLB	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organizations	Loans and advances to large corporate customers	Loans and advances to small and medium size enterprises	Total
Balance at January 1, 2010	445	4,821	16,084	167,424	234,438	423,212
Merger of subsidiary	-	-	-	1,081	7,944	9,025
Impairment (note 4.11.)	313	(773)	40,925	74,848	103,533	218,846
Write offs	-	(1,069)	(25)	(2,293)	(3,170)	(6,557)
Other	-	-	-	2,447	-	2,447
Balance at December 31, 2010	758	2,979	56,984	243,507	342,745	646,973
Impairment (note 4.11.)	(103)	(75)	69,678	131,414	156,333	357,247
Write offs	-	(672)	-	-	(19,296)	(19,968)
Balance at December 31, 2011	655	2,232	126,662	374,921	479,782	984,252

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organizations	Loans and advances to large corporate customers	Loans and advances to small and medium size enterprises	Total
Balance at January 1, 2010	1,342	26,606	25,797	240,188	472,964	766,897
Effects of translation of foreign operations to presentation currency	117	2,555	48	585	6,361	9,666
Impairment (note 4.11.)	2,078	(8,252)	36,905	86,181	215,131	332,043
Write offs	-	(2,142)	(8,639)	(21,421)	(31,772)	(63,974)
Other	-	-	-	2,447	557	3,004
Transfer to non-current assets or disposal group held for sale	-	-	(91)	(210)	(19,017)	(19,318)
Balance at December 31, 2010	3,537	18,767	54,020	307,770	644,224	1,028,318
Effects of translation of foreign operations to presentation currency	16	362	1	202	(1,526)	(945)
Impairment (note 4.11.)	331	295	8,008	160,548	286,541	455,723
Write offs	-	(1,271)	-	(5,360)	(31,073)	(37,704)
Balance at December 31, 2011	3,884	18,153	62,029	463,160	898,166	1,445,392

c) Other financial assets

NLB	
Balance at January 1, 2010	4,946
Merger of subsidiary	28
Impairment (note 4.11.)	9,739
Write offs	(486)
Balance at December 31, 2010	14,227
Impairment (note 4.11.)	8,503
Write offs	(1,952)
Balance at December 31, 2011	20,778
NLB Group	
Balance at January 1, 2010	10,568
Effects of translation of foreign operations to presentation currency	(306)
Impairment (note 4.11.)	19,003
Write offs	(2,662)
Balance at December 31, 2010	26,603
Effects of translation of foreign operations to presentation currency	(128)
Impairment (note 4.11.)	17,030
Write offs	(1,855)
Balance at December 31, 2011	41,650

5.17. Trading liabilities

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Derivatives, excluding hedges				
Swap contracts	78,925	75,093	79,308	76,004
- currency swaps	1,836	9,302	1,825	9,302
- interest rate swaps	68,246	58,599	68,640	59,510
- cross currency interest rate swaps	8,843	7,192	8,843	7,192
Options	11,207	15,026	11,207	15,026
- currency options	9,173	12,897	9,173	12,897
- interest rate options	547	917	547	917
- securities options	1,487	1,212	1,487	1,212
Forward contracts	3,591	754	3,611	759
- currency forward	1,882	640	1,902	645
- securities forward	1,709	114	1,709	114
TOTAL	93,723	90,873	94,126	91,789

The notional amounts of derivative financial instruments are disclosed in note 5.28.d).

5.18. Deposits, borrowings and debt securities

a) Deposits from banks and amounts due to customers

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Deposits on demand				
- banks	63,244	93,141	71,094	96,382
- other customers	3,285,003	3,236,063	4,298,393	4,183,341
- governments	92,887	69,282	200,203	173,756
- financial organizations	28,502	40,151	43,434	60,658
- companies	713,679	726,867	1,168,958	1,175,362
- individuals	2,449,935	2,399,763	2,885,798	2,773,565
Other deposits				
- banks	55,744	86,255	69,775	130,629
- other customers	4,274,940	4,427,607	5,895,303	6,203,627
- governments	851,936	796,409	957,345	947,741
- financial organizations	169,469	132,098	271,710	233,528
- companies	537,291	605,510	907,028	1,086,820
- individuals	2,716,244	2,893,590	3,759,220	3,935,538
TOTAL	7,678,931	7,843,066	10,334,565	10,613,979

b) Borrowings from banks and other customers

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Loans				
- banks	1,770,876	2,051,757	2,193,580	2,924,873
- other customers	32,938	14,086	218,904	196,630
- governments	17,149	10,046	31,410	24,881
- financial organizations	13,189	2	184,894	167,711
- companies	2,600	4,038	2,600	4,038
TOTAL	1,803,814	2,065,843	2,412,484	3,121,503

c) Pledged assets and associated liabilities

NLB and NLB Group	Pledged assets		Liabilities	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Available for sale financial assets (note 5.4.b)	-	20,593	-	20,669
TOTAL	-	20,593	-	20,669

In 2010 the NLB Group sold some available for sale financial assets under sale and repurchase agreements (repos). Although the NLB Group was no longer legal owner of these securities it retained the risks and rewards of ownership. The NLB Group was entitled to all coupon interest and potential dividends. Therefore these securities were included in the NLB Group's financial statements as at December 31, 2010 and the counterparty liabilities were presented as financial liabilities associated with the transferred assets.

d) Debt securities in issue

Debt securities issued by NLB relate to issued bonds and are denominated in EUR. Of these, 93.66% bear fixed interest rates (December 31, 2010: 94.09%), while 6.34% bear floating interest rates (December 31, 2010: 5.91%). All issued bonds with a carrying amount of EUR 1,234,987 thousand (December 31, 2010: EUR 1,793,520 thousand) were traded on active markets as at December 31, 2011.

Debt securities issued by the NLB Group relate to issued bonds and are all denominated in EUR. Of these, 93.65% bear fixed interest rates (December 31, 2010: 93.56%), while 6.35% bear floating interest rates (December 31, 2010: 6.44%). All issued securities with a carrying amount of EUR 1,232,934 thousand were traded on active markets as at December 31, 2011 (December 31, 2010: EUR 1,791,329 thousand were traded on active markets, EUR 12,633 thousand were not traded on active markets).

In 2011, NLB made an early repurchase of bonds in the nominal amount of EUR 495,726 thousand. The effects are included in the income statement as losses from financial assets and liabilities not classified at fair value through profit or loss.

During the years presented there were no defaults on the securities in issue.

5.19. Subordinated liabilities

				NLB			
				31.12.2011		31.12.2010	
	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	14.6.2016	EURIBOR + 0.45% p.a. to 14.6.2011, thereafter EURIBOR + 1.1% p.a.	75,680	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.	196,815	190,000	189,840	190,000
	EUR	-	3 months EURIBOR + 1.5% p.a. to 7.9.2011, thereafter 3 months EURIBOR + 2.25% p.a.	-	-	100,182	100,000
	EUR	-	3 months EURIBOR + 0.95% p.a. to 24.7.2012, thereafter 3 months EURIBOR + 1.7% p.a.	120,092	120,000	119,872	120,000
Subordinated securities							
	EUR	10.2.2011	4.5%	-	-	5,200	5,000
	EUR	25.2.2013	6 months EURIBOR + 1.4% p.a.	12,639	12,500	12,613	12,500
	EUR	9.6.2013	7.0%	50,742	48,963	50,667	48,963
	EUR	24.5.2017	6.25%	64,225	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.	100,900	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.	129,800	130,000	131,699	130,000
TOTAL				750,893	737,882	848,413	842,882

				NLB Group			
				31.12.2011		31.12.2010	
Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value	
Subordinated loans							
EUR	30.12.2014	6 months EURIBOR + 5.1% p.a. to 22.3.2014, thereafter 6 months EURIBOR + 8.5% p.a.	4,586	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.	75,680	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.	196,815	190,000	189,840	190,000	
EUR	30.6.2018	6 months EURIBOR + 4.2% p.a. to 22.9.2013, thereafter 6 months EURIBOR + 6.3% p.a.	12,080	12,000	12,284	12,000	
EUR	30.6.2020	6 months EURIBOR + 5.7% p.a. to 30.6.2015, thereafter 6 months EURIBOR + 7.7% p.a.	4,961	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.	-	-	100,182	100,000	
EUR	-	3 months EURIBOR + 0.95% p.a. to 24.7.2012, thereafter 3 months EURIBOR + 1.7% p.a.	120,092	120,000	119,872	120,000	
Subordinated securities							
EUR	10.2.2011	4.5%	-	-	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.	11,046	11,000	11,084	11,000	
EUR	25.2.2013	6 months EURIBOR + 1.4% p.a.	12,639	12,500	12,613	12,500	
EUR	9.6.2013	7.0%	50,742	48,963	50,667	48,963	
EUR	24.5.2017	6.25%	64,225	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.	100,900	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.	129,800	130,000	131,699	130,000	
TOTAL			783,566	770,382	901,461	894,382	

In 2011, NLB made an early repurchase of subordinated loan in the nominal amount of EUR 100 million. The effects are disclosed in the income statement as losses on financial assets and liabilities not classified at fair value through profit or loss.

In 2011 NLB recalculated the amortized costs of subordinated loans of nominal amount of EUR 190,000 thousand and EUR 75,000 thousand and subordinated securities in nominal amount of EUR 130,000 thousand as a result of a change in expected future cash flows. The aforementioned recalculation resulted in higher amortized costs for subordinated loans in the amount of EUR 7,434 thousand and lower amortized costs for subordinated securities in amount of EUR 1,184 thousand. The effects are disclosed in the income statement as losses on financial assets and liabilities not classified at fair value through profit or loss.

In accordance with the Regulation on the Calculation of the Capital of Banks and Savings Banks, a subordinated loan in the amount of EUR 130 million is included in the NLB Group's Tier I capital as at December 31, 2011. All other subordinated loans and issued securities are included in the NLB Group's Tier II capital. Subordinated liabilities do not contain any provisions for conversion to capital or any other liabilities. During the years presented, there were no defaults on subordinated liabilities.

5.20. Provisions

a) Analysis by type of provisions

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Provisions for guarantees and commitments (note 5.28.b)	86,747	45,895	89,172	56,997
Employee benefit provisions	13,506	14,124	32,205	32,532
Restructuring provisions	3,033	6,000	3,033	6,000
Provisions for premiums from National Saving Scheme	1,908	1,967	1,908	1,967
Other provisions	2,758	3,063	5,383	5,373
TOTAL	107,952	71,049	131,701	102,869

b) Movements in provisions for guarantees and commitments

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	45,895	33,253	56,997	43,343
Effects of translation of foreign operations to presentation currency	-	-	11	35
Additional provisions (note 4.10.)	201,447	82,420	205,230	97,271
Provisions released (note 4.10.)	(160,595)	(69,778)	(173,045)	(83,652)
Balance at December 31	86,747	45,895	89,193	56,997

c) Movements in employee benefit provisions

Post-employment benefits

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	10,005	11,299	26,642	31,133
Effects of translation of foreign operations to presentation currency	-	-	29	(73)
Additional provisions (note 4.8.)	90	720	1,678	2,021
Provisions released (note 4.8.)	(473)	-	(528)	(2,441)
Utilized during year	(859)	(2,014)	(2,309)	(3,998)
Balance at December 31	8,763	10,005	25,512	26,642

Other employee benefits

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	4,119	4,594	5,890	6,366
Effects of translation of foreign operations to presentation currency	-	-	(8)	(17)
Additional provisions (note 4.8.)	3,953	3,209	5,027	4,078
Provisions released (note 4.8.)	-	-	(32)	(23)
Utilized during year	(3,329)	(3,684)	(4,184)	(4,481)
Transfer to non-currents assets and disposal group classified as held for sale (note 5.10.b)	-	-	-	(33)
Balance at December 31	4,743	4,119	6,693	5,890

Other employee benefits include the NLB Group's obligations for jubilee long-service benefits and unused annual leave.

d) Movements in provisions for premiums from National Housing Saving Scheme

NLB and NLB Group	2011	2010
Balance at January 1	1,967	4,367
Additional provisions (note 4.10.)	55	252
Utilized during year	(114)	(2,652)
Balance at December 31	1,908	1,967

According to the covenants of the National Housing Saving Scheme, the Housing Fund of the Republic of Slovenia was required in previous years to contribute one monthly premium per year for all depositors included in the scheme. NLB is required to refund the invested premiums to the Housing Fund for all depositors that decide not to raise a loan after the conclusion of the scheme. NLB has created provisions for the expected amount of such premiums.

e) Movements in restructuring provisions

NLB and NLB Group	2011	2010
Balance at January 1	6,000	-
Additional provisions (note 4.10.)	-	6,000
Utilized during year	(2,967)	-
Balance at December 31	3,033	6,000

Cash flows associated with the restructuring provisions are expected in 2012 and 2013.

f) Movements in other provisions

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	3,063	2,323	5,373	4,272
Effects of translation of foreign operations to presentation currency	-	-	6	(17)
Additional provisions (note 4.10.)	-	4,093	481	4,548
Provisions released (note 4.10.)	(229)	-	(237)	-
Utilized during year	(76)	(3,353)	(240)	(3,430)
Balance at December 31	2,758	3,063	5,383	5,373

Other provisions in NLB in amount of EUR 2,758 thousand (December 31, 2010: EUR 2,833 thousand) relate to claims for additional interest relating to retail savings and deposits.

5.21. Deferred income tax

a) Analysis by type of deferred income taxes

	NLB		NLB Group	
	2011	2010	2011	2010
Deferred income tax assets				
Valuation of financial instruments and capital investments	42,941	24,597	46,207	28,303
Tax losses	59,722	19,950	62,039	22,463
Impairment provisions	3,283	3,171	18,396	13,680
Employee benefit provisions	2,372	2,847	2,910	3,526
Depreciation and valuation of non-financial assets	948	1,130	1,335	1,341
Tax reliefs	271	157	271	157
Dividends	1	-	1	-
Total deferred income tax assets	109,538	51,852	131,159	69,470
Deferred income tax liabilities				
Valuation of financial instruments	4,218	6,397	7,091	7,193
Depreciation and valuation of non-financial assets	1,542	1,614	1,660	1,975
Impairment provisions	-	-	18,224	1,451
Total deferred income tax liabilities	5,760	8,011	26,975	10,619
Net deferred income tax assets	103,778	43,841	104,867	60,745
Net deferred income tax liabilities	-	-	(683)	(1,894)
Included in the income statement for the current year	48,215	26,566	34,363	30,594
- tax losses	39,772	18,870	39,478	18,506
- valuation of financial instruments and capital investments	8,801	7,639	7,118	8,122
- employee benefit provisions	(475)	417	(617)	315
- impairment provisions	112	144	(12,051)	4,199
- depreciation and valuation of non-financial assets	(110)	(26)	320	(70)
- other	115	(478)	115	(478)
Included in other comprehensive income for the current year	11,722	169	10,889	(2,314)
- valuation of available for sale financial assets	11,746	470	11,100	(2,016)
- cash flow hedges	(24)	(301)	(24)	(301)
- net investment hedges	-	-	(187)	-
- other	-	-	-	3

b) Movements in deferred income taxes

Deferred income tax assets

NLB								
	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Tax reliefs	Dividends	Total
Balance at January 1, 2010	2,430	18,803	1,213	1,160	-	-	635	24,241
Merger of subsidiary	-	-	-	1,867	1,080	-	-	2,947
(Charged)/credited to profit and loss	417	7,557	(83)	144	18,870	157	(635)	26,427
Charged to other comprehensive income	-	(1,763)	-	-	-	-	-	(1,763)
Balance at December 31, 2010	2,847	24,597	1,130	3,171	19,950	157	-	51,852
(Charged)/credited to profit and loss	(475)	8,716	(182)	112	39,772	114	1	48,058
Credited to other comprehensive income	-	9,628	-	-	-	-	-	9,628
Balance at December 31, 2011	2,372	42,941	948	3,283	59,722	271	1	109,538
NLB Group								
	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Tax losses	Tax reliefs	Dividends	Total
Balance at January 1, 2010	3,216	23,874	1,506	8,883	4,317	-	635	42,431
Effects of translation of foreign operations to presentation currency	(5)	-	-	4	(360)	-	-	(361)
(Charged)/credited to profit and loss	315	8,761	(165)	4,793	18,506	157	(635)	31,732
Charged to other comprehensive income	-	(4,332)	-	-	-	-	-	(4,332)
Balance at December 31, 2010	3,526	28,303	1,341	13,680	22,463	157	-	69,470
Effects of translation of foreign operations to presentation currency	1	-	-	(11)	98	-	-	88
(Charged)/credited to profit and loss	(617)	9,131	(6)	4,727	39,478	114	1	52,828
Credited to other comprehensive income	-	8,773	-	-	-	-	-	8,773
Balance at December 31, 2011	2,910	46,207	1,335	18,396	62,039	271	1	131,159

Deferred income tax liabilities

	NLB		Total
	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	
Balance at January 1, 2010	8,410	1,671	10,081
Credited to profit and loss	(82)	(57)	(139)
Credited to other comprehensive income	(1,931)	-	(1,931)
Balance at December 31, 2010	6,397	1,614	8,011
Credited to profit and loss	(85)	(72)	(157)
Credited to other comprehensive income	(2,094)	-	(2,094)
Balance at December 31, 2011	4,218	1,542	5,760

	NLB Group			Total
	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	
Balance at January 1, 2010	856	8,569	2,095	11,520
Effects of translation of foreign operations to presentation currency	1	-	(22)	(21)
Charged/(credited) to profit and loss	594	639	(95)	1,138
Credited to other comprehensive income	-	(2,015)	(3)	(2,018)
Balance at December 31, 2010	1,451	7,193	1,975	10,619
Effects of translation of foreign operations to presentation currency	(5)	1	11	7
Charged/(credited) to profit and loss	16,778	2,013	(326)	18,465
Credited to other comprehensive income	-	(2,116)	-	(2,116)
Balance at December 31, 2011	18,224	7,091	1,660	26,975

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

2011	NLB			NLB Group		
	Before tax amount	Tax (expense)/credit	Net of tax amount	Before tax amount	Tax (expense)/credit	Net of tax amount
Hedge of a net investment in a foreign operation	-	-	-	933	(187)	746
Available for sale financial assets	(57,992)	11,746	(46,246)	(56,893)	11,100	(45,793)
Cash flow hedge	119	(24)	95	119	(24)	95
Effects of translation of foreign operations to presentation currency	-	-	-	4,242	-	4,242
Share of associates and joint ventures	-	-	-	(3,130)	471	(2,659)
TOTAL	(57,873)	11,722	(46,151)	(54,729)	11,360	(43,369)

2010	NLB			NLB Group		
	Before tax amount	Tax (expense)/credit	Net of tax amount	Before tax amount	Tax (expense)/credit	Net of tax amount
Available for sale financial assets	(2,346)	470	(1,876)	553	(193)	360
Cash flow hedge	1,503	(301)	1,202	1,503	(301)	1,202
Effects of translation of foreign operations to presentation currency	-	-	-	(4,903)	-	(4,903)
Share of associates and joint ventures	-	-	-	(287)	48	(239)
TOTAL	(843)	169	(674)	(3,134)	(446)	(3,580)

5.23. Other liabilities

Analysis by type of other liabilities

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Financial liabilities				
Debit or credit card payables	13,184	13,985	15,578	14,486
Suppliers	10,360	13,872	12,835	20,660
Fees and commissions due	6,622	23,519	6,667	23,571
Items in the course of payment	2,337	2,956	12,057	11,492
Factoring	-	-	309	1,063
Non-financial liabilities				
Accrued salaries	8,843	9,772	9,932	11,353
Taxes payable	4,997	2,922	6,819	4,349
Accruals	3,648	3,282	12,328	13,245
Payments received in advance	46	26	9,754	7,033
Other liabilities	6,428	10,083	13,640	16,749
TOTAL	56,465	80,417	99,919	124,001

5.24. Share capital

In March 2011 NLB increased capital in the amount of EUR 250,000 thousand. Share capital increased for EUR 17,986 thousand and share premium for EUR 232,014 thousand. As at December 31, 2011 NLB's share capital amounted to EUR 92,314 thousand (December 31, 2010: EUR 74,328 thousand), and is divided into 11,061,125 ordinary shares (December 31, 2010: 8,905,952).

All shares are ordinary, freely transferable no-par value shares, with voting rights, issued in non-material form and registered in the accounts of shareholders at the Central Securities Clearing Corporation. All shares are of the same class and subscribed and paid up. Shareholders have the right to participate in the governance of NLB, to receive dividends, and they are entitled to an appropriate portion of assets in the event of the winding-up of NLB, as determined by law. All shares are paid-up in full.

As at December 31, 2011 there were 1,990 shareholders (December 31, 2010: 2,002) of which 272 are legal entities, 1,696 are individuals and 22 are non-residents. Compared to year-end 2010 the number of shareholders has decreased by 12. One share is held by NLB's subsidiary (December 31, 2010: 1 share). NLB has 34,924 treasury shares, for which it has created reserves in the amount of EUR 2,048 thousand.

The book value of a NLB share as at December 31, 2011 was EUR 86.8 (December 31, 2010: EUR 111.2) and on a consolidated level it was EUR 88.5 (December 31, 2010: EUR 114.0). It is calculated as relation between net assets book value and the number of shares without treasury shares.

Pursuant to the decision of the annual General Meeting, NLB did not pay a dividend for 2010 during 2011 (2010: EUR nil).

5.25. Reserves

The share premium comprises paid-up premiums in the amount of EUR 678,398 thousand (December 31, 2010: EUR 446,390 thousand) and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand (December 31, 2010: EUR 49,205 thousand). The share premium is not distributable.

Profit reserves in the amount of EUR 180,248 thousand (December 31, 2010: EUR 413,448 thousand) comprise retained earnings that were transferred to reserves in accordance with the decision of NLB's Annual General Meeting and cannot be distributed in the form of dividends.

NLB recorded a net loss in the amount of EUR 233,201 thousand (2010: net loss EUR 183,423 thousand), and thus no distributable profit is available for 2011.

5.26. Capital adequacy ratios

	NLB		NLB Group	
	2011	2010	2011	2010
REGULATORY CAPITAL	1,016,627	1,147,331	1,500,022	1,595,342
TIER I CAPITAL	1,055,296	1,031,203	1,027,032	994,904
Paid up share capital	92,314	74,328	92,314	74,328
Treasury shares	(3,609)	(4,635)	(3,609)	(4,635)
Capital reserves (share premium)	727,603	495,595	727,603	495,595
Reserves and retained profit or loss	179,719	412,971	199,204	430,525
Non-controlling interest	-	-	21,535	20,299
Revaluation reserves - prudential filters	(8,291)	(532)	(9,702)	(1,687)
Hybrid instruments in Tier I	130,000	129,999	130,000	129,999
Other deductions	(62,440)	(76,523)	(130,313)	(149,520)
<i>Intangible assets</i>	<i>(62,440)</i>	<i>(73,494)</i>	<i>(130,313)</i>	<i>(146,491)</i>
<i>Other</i>	<i>-</i>	<i>(3,029)</i>	<i>-</i>	<i>(3,029)</i>
TIER II CAPITAL	549,953	678,752	571,487	704,543
DEDUCTION FROM TIER I AND TIER II CAPITAL (equity investments in banks and financial institutions)	(588,622)	(562,624)	(98,497)	(104,105)
CAPITAL REQUIREMENTS	801,899	921,513	1,080,758	1,250,658
Total capital requirements for credit risk (standardised approach)	725,691	825,539	953,802	1,101,382
Total capital requirements for market risks	17,442	35,538	28,650	48,243
Capital requirements for operating risk	58,766	60,436	98,306	101,033
CAPITAL ADEQUACY RATIO (in %)	10.14	9.96	11.10	10.20

Capital adequacy and capital are monitored in conformity with the guidelines developed by the Basel Committee and European Community Directives, as implemented by the Bank of Slovenia. The required information on capital adequacy is filed with the Bank of Slovenia on a quarterly basis. The Bank of Slovenia requires each bank and banking group to maintain capital adequacy ratio at or above 8%. In the year 2011 and 2010, NLB and the NLB Group complied with the requirements of the capital adequacy regulation.

Capital adequacy calculations for the NLB Group are based upon the consolidated financial reports, prepared in line with the Regulation on the supervision of banks and savings banks on a consolidated basis, which differs from the consolidation made in line with IFRS. According to IFRS, all the group's subsidiaries, associates and joint ventures are included in consolidated financial statements: subsidiaries using the full consolidation method whereas associates and joint ventures using the equity method.

According to the Regulation on the supervision on a consolidated basis, insurance companies and pension funds are completely excluded from the consolidated financial reports (in case of NLB Group, these companies are: NLB Nov penziskni fond, Skopje, Skupna pokojninska družba, Ljubljana and NLB Vita, Ljubljana). Furthermore, joint ventures (in case of NLB Group: Prvi Faktor Group, Ljubljana) are included in consolidated reports using the proportional method of consolidation.

The characteristics of each capital component are described in the Regulation on the calculation of own funds of banks and savings banks (Ur.l.RS 85/2010, 97/2010 and 100/11). Tier II capital includes hybrid instruments (Tier I eligible instruments that exceed the limitation for inclusion in Tier I capital, as well as Tier II eligible instruments), subordinated debt and revaluation reserve from available for sale securities and from investment property. The extent of subordinated debt included in Tier II capital is gradually decreasing with a 20% reduction in each of the last five years before maturity.

On December 31, 2010, Regulation on the calculation of own funds of banks and savings banks came into force, introducing more restrictive policy regarding inclusion of hybrid (innovative) instruments in Tier I capital. Existing innovative instrument issued by NLB does not fulfil new demands for inclusion in Tier I and was classified as "grandfathered hybrid instrument". Therefore, the instrument can be further included in Tier I capital: up to 15% of Tier I capital until year 2030 (same treatment as under previous regulation) and up to 10% of Tier I capital until year 2040; after year 2040 inclusion is no longer allowed.

In 2011, NLB participated in the pan-European stress test conducted by the European Banking Authority (EBA), in cooperation with national supervisory bodies (locally, the Bank of Slovenia), the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB). Testing was carried out on the basis of the EBA's common methodology and key common assumptions. The test was used to assess the core Tier 1 capital adequacy ratio of an individual bank.

Taking into account the prescribed methodology and the requirement for a core Tier I ratio of 9%, the calculation showed that NLB had a capital deficit of EUR 320 million as at September 30, 2011, which it must rectify by the end of June 2012. The aforementioned deficit is covered by the additional capital increase proposed by the Bank's Management Board and Supervisory Board. If the capital increase is not carried out by the prescribed deadline, NLB will make use of other measures in the scope of agreed mechanisms at the EU level.

Regardless of the above mentioned, NLB has begun selling off its investments on non-strategic markets and activities. The expected result of these measures is organizational and financial consolidation, and the strengthening of the NLB Group's capital, which will facilitate increased focus on the markets and activities that proved most profitable and prospective in the past. NLB continues to search for synergies, to consolidate and to rationalize the operations of the NLB Group companies on these markets. A great deal of emphasis is placed on the further development of corporate governance, in particular through the continuation of the process of harmonizing business standards started in the past, and the transfer of know-how and best practices within the Group according to the "business line" system.

5.27. Foreign branches

NLB has a branch in Trieste with total assets amounting to EUR 109,647 thousand as at December 31, 2011 (December 31, 2010: EUR 155,180 thousand) and net profit for 2011 of EUR 83 thousand (2010: EUR 124 thousand).

5.28. Off-balance sheet liabilities

a) Contingent liabilities and commitments

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank, on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit provides for deferred payment – to be paid at maturity, provided that the beneficiary (exporter) presents NLB documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorization of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

b) Contractual amounts of off-balance sheet financial instruments

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Short-term guarantees	293,491	667,245	349,071	720,302
- financial	194,063	474,759	222,119	493,288
- performance	99,428	192,486	126,952	227,014
Long-term guarantees	1,091,726	1,213,417	918,350	762,168
- financial	572,772	850,838	373,251	382,229
- performance	518,954	362,579	545,099	379,939
Commitments to extend credit	1,038,332	1,228,500	1,204,856	1,389,448
Guaranteed and accepted bills	48,417	55,419	50,997	58,917
Letters of credit	4,253	5,014	20,216	29,114
Other	52,694	26,073	56,878	26,637
	2,528,913	3,195,668	2,600,368	2,986,586
Provisions (note 5.20.b)	(86,747)	(45,895)	(89,172)	(56,997)
TOTAL	2,442,166	3,149,773	2,511,196	2,929,589

Commitments to extend loans can be realized within one year. The NLB Group has no financial guarantees, for which the first possible payment date would be later than within one year.

c) Movement of called performance guarantees

	NLB		NLB Group	
	2011	2010	2011	2010
Balance at January 1	2,018	166	3,357	1,533
Effects of translation of foreign operations to presentation currency	-	-	49	(162)
Called guarantees	51,021	3,566	54,306	5,445
Paid guarantees	(5,686)	(1,714)	(8,416)	(3,459)
Balance at December 31	47,353	2,018	49,296	3,357

Fee income from all issued performance guarantees amounted to EUR 7,225 thousand (2010: EUR 8,010 thousand) at NLB, and to EUR 8,124 thousand (2010: EUR 8,938 thousand) at the NLB Group.

d) Analysis of derivative financial instruments by notional amounts

	NLB				NLB Group			
	31.12.2011		31.12.2010		31.12.2011		31.12.2010	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	1,355,690	3,112,531	1,476,986	4,050,796	1,357,261	3,110,338	1,486,249	4,054,522
- currency swaps	293,787	29,034	266,581	92	293,477	29,034	266,613	92
- interest rate swaps	1,061,903	3,000,494	1,209,318	3,975,452	1,063,784	2,998,301	1,218,549	3,979,178
- cross currency interest rate swaps	-	83,003	1,087	75,252	-	83,003	1,087	75,252
Options	13,206	140,714	114,113	176,079	13,206	140,714	114,113	176,079
- currency options	548	75,360	84,113	84,660	548	75,360	84,113	84,660
- interest rate options	-	65,354	30,000	79,010	-	65,354	30,000	79,010
- securities options	12,658	-	-	12,409	12,658	-	-	12,409
Forward contracts	128,061	8,029	89,866	22,587	135,408	8,029	103,747	22,587
- currency forward	103,382	6,364	57,129	89	110,729	6,364	71,010	89
- cross currency interest rate forward - FRA	24,679	-	32,064	-	-	-	32,064	-
- securities forward	-	1,665	673	22,498	24,679	1,665	673	22,498
Futures	9,245	-	65,369	-	9,245	-	65,369	-
- currency futures	9,245	-	31,631	-	9,245	-	31,631	-
- interest rate futures	-	-	33,738	-	-	-	33,738	-
TOTAL	1,506,202	3,261,274	1,746,334	4,249,462	1,515,120	3,259,081	1,769,478	4,253,188
	4,767,476	5,995,796	4,774,201	6,022,666				

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB and NLB Group amount to EUR 1,830,782 thousand (December 31, 2010: EUR 2,894,422 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.5. and 5.17.

e) Operating lease commitments

The future minimum lease payments under non-cancellable property and equipment and intangible assets operating leases are as follows:

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Not later than one year	1,879	2,440	3,411	3,877
Later than one year and not later than five years	5,937	7,862	10,153	10,582
Later than five years	2,776	3,396	2,204	3,160
TOTAL	10,592	13,698	15,768	17,619

f) Operating lease income

Future minimum lease income:

	31.12.2011	31.12.2010
NLB Group		
Not later than one year	8,775	11,701
Later than one year and not later than five years	8,655	9,156
Later than five years	278	615
TOTAL	17,708	21,472

Income from operating leases in NLB amounts to EUR 725 thousand (2010: EUR 798 thousand) while in the NLB Group EUR 9,390 thousand (2010: EUR 12,651 thousand) and is included in income from non-banking services (note 4.6).

g) Capital commitments

As at December 31, 2011 NLB had capital commitments for the purchase of intangible assets (software and licenses) in the amount of EUR 290 thousand in respect of the implementation of a new information technology system (December 31, 2010: EUR 662 thousand).

As at December 31, 2011 the NLB Group had capital commitments for the purchase of property and equipment in the amount of EUR 19 thousand (December 31, 2010: EUR nil) and commitments in the amount of EUR 362 thousand (December 31, 2010: EUR 734 thousand) in respect of intangible assets (software and licenses).

5.29. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted for separately from the NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on the NLB Group in connection with these transactions. The NLB Group charges fees for its services.

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
ASSETS				
Clearing or transaction account claims for client assets	8,968,708	8,085,279	8,982,947	8,092,887
- from financial instruments	8,968,685	8,085,155	8,982,924	8,092,763
- receipt, processing and execution of orders	979,354	1,001,945	979,401	1,001,963
- management of financial instruments portfolio	127,090	98,826	127,090	98,826
- custody services	7,862,241	6,984,384	7,876,433	6,991,974
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	23	124	23	124
Clients' money	30,408	17,461	30,408	17,461
- at settlement account for client assets	4,109	2,381	4,109	2,381
- at bank transaction accounts	26,299	15,080	26,299	15,080
LIABILITIES				
Clearing or transaction liabilities for client assets	8,999,116	8,102,740	9,013,355	8,110,348
- to client from cash and financial instruments	8,998,822	8,102,485	9,013,061	8,110,093
- receipt, processing and execution of orders	979,376	1,002,108	979,423	1,002,126
- management of financial instruments portfolio	131,739	101,625	131,739	101,625
- custody services	7,887,707	6,998,752	7,901,899	7,006,342
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	90	1	90	1
- to bank or settlement bank account for fees and costs etc.	204	254	204	254

Funds managed on behalf of third parties

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Fiduciary activities	8,999,116	8,102,740	9,013,355	8,110,348
Settlement and other services	930,802	842,905	1,004,489	899,439
TOTAL	9,929,918	8,945,645	10,017,844	9,009,787

Fee income for funds managed on behalf of third parties

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Fiduciary activities (note 4.3.b)	6,113	5,416	6,406	5,552
Settlement and other services	403	718	382	827
TOTAL	6,516	6,134	6,788	6,379

6. EVENTS AFTER REPORTING DATE

After December 31, 2011 there were no significant events.

7. RISK MANAGEMENT

The aim of risk management in the NLB Group is to achieve its planned results with minimal risk taking and to optimize the use of the NLB Group's regulatory and internal capital.

In managing risks, the NLB Group takes into account rules and regulations prescribed by the Bank of Slovenia and related internal acts of the NLB Group. The basic strategy and internal acts, which are regularly updated, discussed by the Supervisory Board and approved by the Management Board, define the objectives, procedures and methodologies for monitoring, measuring and managing different risks.

Following an initial recovery, economic growth continued to decrease in 2011. The global economic and financial crisis continued to deepen and affected the operations of our customers. They have, to an even greater extent than the previous year, found themselves in a situation that led to a record number of insolvency proceedings.

The adverse conditions affected the operations of the NLB Group, in particular the areas of credit risk management and liquidity risk management, as a result of a high level of distrust among financial institutions, which was further reinforced by the downgrading of NLB's international credit rating.

The NLB Group responded to the adverse conditions by strengthening its internal controls. It completed the project aimed at the centralization and harmonization of risk management. The NLB Group upgraded its methodology of liquidity risk stress test scenarios as a result of limited access to financial resources, which facilitates a faster and more comprehensive response to the liquidity situation. The NLB Group is aware of the global financial situation and takes all measures to ensure an adequate level of liquidity.

Certain issues remain open, in particular regarding credit risk management, as a result of the organization and internal processes. For that reason, NLB began a project aimed at the reorganization of and changes to NLB's lending activities. NLB believes that the project, which will be implemented in 2012, will contribute significantly to the improved control and management of risks. The same approach will be taken at all other NLB Group companies in the next phase, the monitoring of which will be augmented with the implementation of a data warehouse.

We estimate that the changes will result in lower operational risk, which has increasingly manifested itself in the year of 2011 in terms of numbers and diversity also as a consequence of non payments by clients.

7.1. Credit risk management

After early positive trends, movements in economic activity once again turned negative in 2011. This was followed by further deterioration of the credit portfolio, primarily in the construction sector, which in 2011 again experienced a significant drop in the volume of work performed, and where NLB first experienced a significant increase in the number of performance and payment guarantees redeemed. For that reason, NLB generated higher losses in the form of impairments and provisions. In contrast, export-oriented companies focusing on Europe frequently recorded significant growth in revenues. Thus, there were no major defaults in this segment.

The concentration of the portfolio on a small number of highly exposed clients mainly from the construction sector had a significant impact on the level of losses. NLB responded to this by limiting maximum exposure to an individual customer to 10% (previously 25%) of capital, through a clear downward trend in exposure to the construction sector and by tightening credit rating criteria. NLB also tightened collateral requirements for both existing and new transactions. NLB partly slowed the redemption of issued guarantees through the proactive monitoring and management of projects for which guarantees were issued to problematic customers.

NLB's response to the deteriorating credit portfolio included the following measures:

- amendment to the approach for rating customers, with a focus on problematic customers,
- requirements for higher-quality collateral,
- centralization of the treatment of materially significant customers and
- the continuing consolidation process and the transfer of NLB's risk management model to all banking subsidiaries and other financial companies in the NLB Group.

Nevertheless, a growth in bad loans could not be prevented. In 2011, bad loans increased by 74%. Although nominal growth slowed in the second half of the year, the proportion of bad loans rose to 17.9%, in part due to the simultaneous decline in the total loan portfolio. The following three events had a significant impact on the creation of impairments:

- the redemption of guarantees for the largest insolvent construction companies,
- a decrease in the fair value of collateral due to the illiquid real estate market and
- the tightening of the liquidity situation, mainly in the construction sector.

Impairment losses and provisions for commitments are created in accordance with IFRS as adopted by the EU and the standard methodology for the NLB Group, according to the risk associated with an individual transaction and the existence of objective evidence of impairment. The amount of impairment loss is also affected by collateral, if it represents an effective means of repayment in the event of a customer's default. Individually significant claims are assessed for impairment on an individual basis, while the remainder of the credit portfolio is assessed collectively.

Individual and portfolio approach to credit risk management

The NLB Group manages credit risk at two levels: at the transactional and portfolio levels.

At the transactional level (i.e. individual customer or project), appropriate processes must be developed during the various phases of the relationship with the customer (i.e. prior to, during and after entering into an agreement).

In the first phase, information regarding the customer, which facilitates the objective assessment of the customer's operations and financial position (i.e. information regarding "soft" factors that could affect the customer's operations and information regarding a customer's past cooperation with the bank), is critical. The aforementioned serves as the basis for rating a customer, for assessing its creditworthiness and later for rating the customer's claims.

In the second phase, it is essential to draw up an appropriate agreement, stipulating collateral and obligations.

The third phase comprises various forms of customer monitoring, in particular with regard to the generation of sufficient cash flows for the regular settlement of liabilities and other relevant data that could affect the customer's solvency (or associated credit risk), and thus the need to create and/or amend the amount of impairments on claims against the customer or provisions for commitments.

NLB's Credit Committee regularly monitors those customers that are under significant pressure from trends in operations and the environment.

The credit portfolio is regularly monitored by segments (e.g. credit rating, country, type and size of customer, activity, collateral, bad/overdue claims, currency exposure, etc.). Monitoring comprises analyzing changes and identifying trends in movements, risks and concentration of the credit portfolio on the basis of time factors.

Among the most important tools for assessing the quality of the credit portfolio, the characteristics of the internal rating system and the level of exposure to systemic risk (i.e. to a risk that affects both a large number of customers and financial instruments) are:

- transition matrices, which illustrate the migration of customers between rating categories, and the related methods for determining time-sensitive portfolio changes and
- the level of concentration or diversification of the credit portfolio. NLB appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from transacting with a specific customer, positions in financial instruments or specific events).

NLB migration matrix for corporate clients based on annual transitional matrices for the years 2001-2011

Rating in 2001	Rating in 2011				
	A	B	C	D	E
A	0.90	0.09	0.01	0.00	-
B	0.09	0.78	0.09	0.03	0.00
C	0.02	0.11	0.66	0.20	0.02
D	-	0.09	0.04	0.64	0.24
E	-	-	-	-	1.00

a) Derivatives

The NLB Group maintains control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, both by amount and term. The NLB Group enters mostly into currency, interest rate and equity derivative contracts. Exposure from derivatives is mainly associated with NLB, other members of the NLB Group conclude derivative contracts only in order to hedge their own open positions or for their clients' purposes (back to back transactions). The amount subject to a credit risk is limited to the credit replacement value of the instrument that is determined in accordance with the regulations (based on the sum of current and potential exposure). Exposure to credit risk from derivatives is managed in the scope of overall lending limits.

b) Credit related commitments

Guarantees and standby letters of credit, which represent irrevocable assurance that the NLB Group will make payments if a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit are written undertakings by the NLB Group on behalf of a customer authorizing a third party to draw drafts on the NLB Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the NLB Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of losses is less than total unused commitments, since most commitments to extend credit are contingent upon customers maintaining a specific credit rating. The NLB Group monitors the term to maturity of credit commitments, as longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

c) Internal rating system and authorizations

	NLB				NLB Group			
	31.12.2011		31.12.2010		31.12.2011		31.12.2010	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
A	45.85	0.21	52.55	0.32	47.17	0.33	50.61	0.48
B	21.11	1.18	24.09	1.56	17.89	2.24	21.96	2.46
C	16.11	13.38	13.55	14.36	14.68	13.61	13.95	14.20
D and E	16.93	46.91	9.81	47.17	20.26	46.99	13.48	43.65
TOTAL	100.00		100.00		100.00		100.00	

The Bank of Slovenia's Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks serves as the legal basis for rating each customer and the associated claims, and for creating impairments. The aforementioned regulation prescribes five rating categories (from "A" to "E") for customers and claims. An "A" credit rating is given to first-class customers, who are not expected to encounter difficulties in repaying their obligations. A credit rating of "B" indicates customers with a slightly worse financial position, which is temporary in nature and does not indicate difficulties in repaying obligations. A credit rating of "C" indicates customers who are undercapitalized and highly indebted, or those customers that generally do not generate sufficient cash flows to repay their obligations, and so thus may pay their obligations in arrears. In credit rating C are classified all those customers, whose obligations have been restructured. Credit ratings of "D" and "E" indicate customers with evident financial difficulties, or those who are in the process of compulsory settlement or bankruptcy. It is expected that these clients will not be able to repay most or even any of their obligations from their operating cash-flow. Customers with a "C" credit rating or worse must provide additional collateral. The regulation also prescribes the impairment of claims and the creation of provisions for commitments in accordance with the IFRS, with respect to the risk of a specific transaction and existence of evidence of impairment. The amount of impairment loss is also affected by the collateral received, if it represents an effective secondary means of repayment in the event of a customer's inability to settle its debts.

Authorizations, procedures and the detailed rating methodology, as well as the setting of a maximum borrowing limit and the impairment of claims, are formalized in the NLB Group's internal acts. A standard customer rating methodology, with the prescribed set and quality of input data and elements of a rating analysis, applies to all NLB Group companies. Here it should be noted that decisions regarding materially significant customers of the NLB Group is solely the responsibility of the NLB Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group companies to ensure that they are operating in accordance with the minimum risk management standards of the NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

d) Maximum exposure to credit risk

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash and balances with Central Banks	304,975	204,429	833,945	768,457
Loans to government	31,135	44,636	137,586	193,524
Loans to banks	594,621	570,228	783,754	864,555
Loans to financial organizations	1,124,936	1,151,080	380,371	405,378
Loans to individuals	1,969,061	2,023,896	2,799,300	2,834,361
<i>Granted overdrafts</i>	184,698	184,572	210,387	209,623
<i>Loans for houses and flats</i>	1,083,357	1,059,651	1,377,602	1,305,130
<i>Consumer loans</i>	646,965	724,672	889,243	929,981
<i>Other loans</i>	54,041	55,001	322,068	389,627
Loans to other customers	5,336,628	5,980,197	7,431,427	8,515,859
<i>Loans to large corporate customers</i>	3,185,972	3,458,353	3,633,706	3,943,031
<i>Loans to small and medium size enterprises</i>	2,150,656	2,521,844	3,797,721	4,572,828
Trading assets	135,828	90,075	135,993	92,384
Available for sale financial assets	1,294,520	1,841,076	1,754,331	2,286,899
Held to maturity investments	1,067,991	759,869	1,067,991	759,954
Derivatives - hedge accounting	37,717	35,584	37,717	35,584
Other financial assets	32,744	38,122	55,646	52,278
TOTAL	11,930,156	12,739,192	15,418,061	16,809,233
Contingent liabilities	2,528,913	3,195,668	2,600,368	2,986,586

The maximum exposure to credit risk represents the worst case scenario relating to credit risk exposure. For assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position, while off-balance sheet items amounts are based on nominal values.

According to internal methodology for loan impairment, all individually significant customers are individually assessed for impairment. This represents on a NLB level 66.9% (2010: 66.4%) and on a NLB Group level 61.4% (2010: 64.0%). NLB has 16.5% (2010: 14.5%) loans and advances neither past due nor impaired and 0.4% (2010: 0.9%) loans and advances past due but not impaired.

In 2010, and again in 2011, the quality of the credit portfolio deteriorated due to the financial crisis. This resulted in an increase in impairment and provisions for credit loss for customers who were collectively assessed and for customers who were individually assessed, as the result of lower expected repayments or lower market value of collateral.

For this reason the coverage of the credit portfolio by allowances for impairment in NLB has been steadily increasing (2010: increasing) to stand at the end of the year 2011 at 10.6% (2010: 7.2%). 67% (2010: 76.6%) of the portfolio is considered to be a quality portfolio. The coverage of the portfolio by allowances for impairment at the NLB Group level has also risen and stood at 12.3% (December 31, 2010: 8.8%) at the end of 2011. 65.1% (December 31, 2010: 72.6%) of the portfolio is considered as quality portfolio (A and B ratings).

Non-performing loans

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Non-performing loans (in thousand EUR)	1,873,711	1,078,538	3,007,752	2,164,713
Non-performing loans/total loans	17.9%	10.1%	21.3%	14.5%

Non-performing loans are defined as loans to D and E rated clients and amounts of loans to A, B and C clients that are more than 90 days past due.

e) Collateral from loans and advances

31.12.2011	NLB			
	Fully/over collateralised loans and advances		Non-collateralised and under-collateralised loans and advances	
	Carrying value of loans and advances	Fair value of collateral	Carrying value of loans and advances	Fair value of collateral
Loans to government	12,993	43,323	18,142	-
Loans to banks	2,780	2,780	591,841	21,521
Loans to financial organizations	78,780	197,972	1,046,156	110,238
Loans to individuals	1,285,772	3,076,635	683,289	219,416
<i>Granted overdrafts</i>	-	-	184,698	-
<i>Loans for houses and flats</i>	924,221	2,610,988	159,136	149,322
<i>Consumer loans</i>	361,540	465,545	285,425	70,094
<i>Other loans</i>	11	102	54,030	-
Loans to other customers	3,178,701	6,986,450	2,157,927	1,249,573
<i>Loans to large corporate customers</i>	1,872,665	3,590,049	1,313,307	777,217
<i>Loans to small and medium size enterprises</i>	1,306,036	3,396,401	844,620	472,356
Other financial assets	292	1,226	32,452	333
TOTAL	4,559,318	10,308,386	4,529,807	1,601,081

31.12.2010	NLB			
	Fully/over collateralised loans and advances		Non-collateralised and under-collateralised loans and advances	
	Carrying value of loans and advances	Fair value of collateral	Carrying value of loans and advances	Fair value of collateral
Loans to government	14,802	14,802	29,834	-
Loans to banks	9,279	10,091	560,949	34,347
Loans to financial organizations	201,347	261,946	949,733	85,650
Loans to individuals	1,473,056	3,188,346	550,840	33,117
<i>Granted overdrafts</i>	-	-	184,572	-
<i>Loans for houses and flats</i>	1,027,613	2,634,906	32,038	24,004
<i>Consumer loans</i>	435,956	540,294	288,716	9,113
<i>Other loans</i>	9,487	13,146	45,514	-
Loans to other customers	4,287,193	8,244,501	1,693,004	768,256
<i>Loans to large corporate customers</i>	2,374,079	4,165,587	1,084,274	484,858
<i>Loans to small and medium size enterprises</i>	1,913,114	4,078,914	608,730	283,398
Other financial assets	620	3,559	37,502	173
TOTAL	5,986,297	11,723,245	3,821,862	921,543

31.12.2011	NLB Group			
	Fully/over collateralised loans and advances		Non-collateralised and under-collateralised loans and advances	
	Carrying value of loans and advances	Fair value of collateral	Carrying value of loans and advances	Fair value of collateral
Loans to government	43,018	110,865	94,568	57
Loans to banks	15,060	15,332	768,694	31,618
Loans to financial organizations	89,048	212,131	291,323	112,557
Loans to individuals	1,804,805	4,707,502	994,495	289,782
<i>Granted overdrafts</i>	-	-	210,387	-
<i>Loans for houses and flats</i>	1,208,191	3,635,851	169,411	153,439
<i>Consumer loans</i>	461,466	819,218	427,777	71,373
<i>Other loans</i>	135,148	252,433	186,920	64,970
Loans to other customers	4,619,526	11,787,424	2,811,901	1,616,359
<i>Loans to large corporate customers</i>	2,141,451	4,423,336	1,492,255	889,505
<i>Loans to small and medium size enterprises</i>	2,478,075	7,364,088	1,319,646	726,854
Other financial assets	3,165	142,002	52,481	367
TOTAL	6,574,622	16,975,256	5,013,462	2,050,740

31.12.2010	NLB Group			
	Fully/over collateralised loans and advances		Non-collateralised and under-collateralised loans and advances	
	Carrying value of loans and advances	Fair value of collateral	Carrying value of loans and advances	Fair value of collateral
Loans to government	43,877	75,329	149,647	88
Loans to banks	31,154	32,153	833,401	43,538
Loans to financial organizations	197,614	274,373	207,764	90,373
Loans to individuals	1,910,988	4,705,882	923,373	127,373
<i>Granted overdrafts</i>	-	-	209,623	-
<i>Loans for houses and flats</i>	1,241,084	3,410,762	64,046	38,670
<i>Consumer loans</i>	484,186	796,969	445,795	31,370
<i>Other loans</i>	185,718	498,151	203,909	57,333
Loans to other customers	6,034,861	13,992,425	2,480,998	1,180,135
<i>Loans to large corporate customers</i>	2,739,951	5,055,431	1,203,080	573,351
<i>Loans to small and medium size enterprises</i>	3,294,910	8,936,994	1,277,918	606,784
Other financial assets	2,051	94,351	50,227	173
TOTAL	8,220,545	19,174,513	4,645,410	1,441,680

The NLB Group accepts different types of collateral to mitigate credit risk. The decision regarding the type and value of collateral depends on an analysis customer data. The NLB Group strives to obtain high-quality collateral, which facilitates the more rational use of the NLB Group's capital and results in lower impairments and provisions for financial assets and commitments.

The main types of collateral are as follows:

- for houses and flats to individuals, real estate collateral,
- for consumer loans to individuals, claims secured by insurance company,
- for loans to other customers, real estate collateral.

The NLB Group regularly monitors the value of collateral over the entire loan repayment period and requires that the customer provides additional collateral if the value of collateral decreases.

f) Loans and advances neither past due nor impaired

31.12.2011	NLB				NLB Group			
	A	B	C	D and E	A	B	C	D and E
Loans to government	18,142	-	-	-	37,705	-	-	-
Loans to banks	507,458	66,488	20,035	50	648,201	58,303	29,513	50
Loans to financial organizations	-	-	-	-	86	982	-	-
Loans to individuals	19,191	-	-	-	57,252	160	38	59
<i>Granted overdrafts</i>	2	-	-	-	1,455	11	-	-
<i>Loans for houses and flats</i>	94	-	-	-	10,881	19	-	-
<i>Consumer loans</i>	19,095	-	-	-	21,762	16	-	-
<i>Other loans</i>	-	-	-	-	23,154	114	38	59
Loans to other customers	786,030	17,676	53,955	249	816,000	53,536	72,912	2,748
<i>Loans to large corporate customers</i>	784,930	17,079	25,863	-	793,689	21,913	35,613	-
<i>Loans to small and medium size enterprises</i>	1,100	597	28,092	249	22,311	31,623	37,299	2,748
Other financial assets	8,418	1,774	140	73	18,663	2,950	150	118
TOTAL	1,339,239	85,938	74,130	372	1,577,907	115,931	102,613	2,975

31.12.2010	NLB				NLB Group			
	A	B	C	D and E	A	B	C	D and E
Loans to government	29,836	-	-	-	106,239	-	-	-
Loans to banks	442,121	102,789	20,636	-	616,199	77,742	36,695	116
Loans to financial organizations	-	4	-	-	419	4	-	-
Loans to individuals	44,329	48	269	-	108,687	4,555	480	12
<i>Loans for houses and flats</i>	23,951	34	-	-	37,816	1,602	-	-
<i>Consumer loans</i>	20,378	14	269	-	45,887	2,537	459	-
<i>Other loans</i>	-	-	-	-	24,984	416	21	12
Loans to other customers	689,242	34,724	45,013	802	785,621	79,616	79,513	11,417
<i>Loans to large corporate customers</i>	684,206	24,604	22,401	3	714,385	26,581	33,321	3
<i>Loans to small and medium size enterprises</i>	5,036	10,120	22,612	799	71,236	53,035	46,192	11,414
Other financial assets	7,736	1,596	250	717	17,236	2,209	261	732
TOTAL	1,213,264	139,161	66,168	1,519	1,634,401	164,126	116,949	12,277

g) Loans and advances past due but not impaired

31.12.2011	NLB				NLB Group			
	Up to 30 days	Up to 90 days	Over 90 days	Total	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to government	-	-	-	-	11,354	-	-	11,354
Loans to banks	1	-	-	1	497	-	-	497
Loans to financial organizations	-	-	-	-	1	-	-	1
Loans to individuals	47	1	-	48	18,706	4,640	7,088	30,434
<i>Granted overdrafts</i>	-	-	-	-	172	-	-	172
<i>Loans for houses and flats</i>	1	-	-	1	1,644	1,756	2,293	5,693
<i>Consumer loans</i>	46	1	-	47	1,078	18	15	1,111
<i>Other loans</i>	-	-	-	-	15,812	2,866	4,780	23,458
Loans to other customers	12,375	7,169	12,443	31,987	48,307	24,601	60,205	133,113
<i>Loans to large corporate customers</i>	10,712	3,134	9,262	23,108	21,064	3,142	11,072	35,278
<i>Loans to small and medium size enterprises</i>	1,663	4,035	3,181	8,879	27,243	21,459	49,133	97,835
Other financial assets	204	4	62	270	363	235	2,062	2,660
TOTAL	12,627	7,174	12,505	32,306	79,228	29,476	69,355	178,059

31.12.2010	NLB				NLB Group			
	Up to 30 days	Up to 90 days	Over 90 days	Total	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to government	-	-	-	-	20	7	-	27
Loans to banks	-	-	-	-	126	-	-	126
Loans to individuals	12	6	-	18	6,553	4,755	5,716	17,024
Granted overdrafts	-	-	-	-	207	-	-	207
Loans for houses and flats	4	-	-	4	1,056	750	-	1,806
Consumer loans	8	6	-	14	213	33	606	852
Other loans	-	-	-	-	5,077	3,972	5,110	14,159
Loans to other customers	2,867	7,824	77,246	87,937	32,535	44,211	162,430	239,176
Loans to large corporate customers	211	7,643	13,101	20,955	2,329	13,897	20,043	36,269
Loans to small and medium size enterprises	2,656	181	64,145	66,982	30,206	30,314	142,387	202,907
Other financial assets	110	23	52	185	716	129	2,233	3,078
TOTAL	2,989	7,853	77,298	88,140	39,950	49,102	170,379	259,431

The table illustrates the amounts of loans in arrears in such a way that the total loan amount is placed in the largest bucket for an individual transaction.

h) Impaired loans and advances

31.12.2011	NLB					
	Individually impaired loans and advances			Collectively impaired loans and advances		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Loans to government	13,009	(16)	12,993	-	-	-
Loans to banks	2,821	(2,232)	589	-	-	-
Loans to financial organizations	421,764	(120,885)	300,879	829,838	(5,781)	824,057
Loans to individuals	18,547	(9,799)	8,748	2,002,922	(61,848)	1,941,074
Granted overdrafts	28	(12)	16	196,841	(12,161)	184,680
Loans for houses and flats	2,191	(1,143)	1,048	1,101,101	(18,887)	1,082,214
Consumer loans	16,325	(8,643)	7,682	647,468	(27,327)	620,141
Other loans	3	(1)	2	57,512	(3,473)	54,039
Loans to other customers	2,282,089	(806,445)	1,475,644	3,019,775	(48,688)	2,971,087
Loans to large corporate customers	1,141,575	(368,802)	772,773	1,583,572	(21,353)	1,562,219
Loans to small and medium size enterprises	1,140,514	(437,643)	702,871	1,436,203	(27,335)	1,408,868
Other financial assets	29,203	(19,047)	10,156	13,644	(1,731)	11,913
TOTAL	2,767,433	(958,424)	1,809,009	5,866,179	(118,048)	5,748,131

31.12.2010	NLB					
	Individually impaired loans and advances			Collectively impaired loans and advances		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Loans to government	14,818	(18)	14,800	-	-	-
Loans to banks	7,661	(2,979)	4,682	-	-	-
Loans to financial organizations	162,234	(50,077)	112,157	1,046,003	(7,084)	1,038,919
Loans to individuals	23,024	(6,385)	16,639	2,057,786	(95,193)	1,962,593
Granted overdrafts	36	(8)	28	203,527	(18,983)	184,544
Loans for houses and flats	1,083	(366)	717	1,082,395	(47,450)	1,034,945
Consumer loans	12,766	(3,269)	9,497	716,791	(22,291)	694,500
Other loans	9,139	(2,742)	6,397	55,073	(6,469)	48,604
Loans to other customers	1,958,556	(539,861)	1,418,695	3,750,531	(46,747)	3,703,784
Loans to large corporate customers	900,761	(236,148)	664,613	2,050,824	(9,253)	2,041,571
Loans to small and medium size enterprises	1,057,795	(303,713)	754,082	1,699,707	(37,494)	1,662,213
Other financial assets	22,006	(11,426)	10,580	19,859	(2,801)	17,058
TOTAL	2,188,299	(610,746)	1,577,553	6,874,179	(151,825)	6,722,354

31.12.2011	NLB Group					
	Individually impaired loans and advances			Collectively impaired loans and advances		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Loans to government	21,736	(1,220)	20,516	70,036	(2,025)	68,011
Loans to banks	65,343	(18,153)	47,190	-	-	-
Loans to financial organizations	161,833	(60,357)	101,476	279,502	(1,676)	277,826
Loans to individuals	38,393	(16,446)	21,947	2,811,024	(121,614)	2,689,410
<i>Granted overdrafts</i>	92	(68)	24	223,128	(14,403)	208,725
<i>Loans for houses and flats</i>	7,503	(2,504)	4,999	1,389,779	(33,769)	1,356,010
<i>Consumer loans</i>	17,753	(9,665)	8,088	913,952	(55,686)	858,266
<i>Other loans</i>	13,045	(4,209)	8,836	284,165	(17,756)	266,409
Loans to other customers	3,546,010	(1,253,252)	2,292,758	4,168,864	(108,504)	4,060,360
<i>Loans to large corporate customers</i>	1,433,880	(440,127)	993,753	1,791,727	(38,267)	1,753,460
<i>Loans to small and medium size enterprises</i>	2,112,130	(813,125)	1,299,005	2,377,137	(70,237)	2,306,900
Other financial assets	52,452	(37,785)	14,667	20,303	(3,865)	16,438
TOTAL	3,885,767	(1,387,213)	2,498,554	7,349,729	(237,684)	7,112,045

31.12.2010	NLB Group					
	Individually impaired loans and advances			Collectively impaired loans and advances		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Loans to government	81,925	(2,629)	79,296	8,130	(168)	7,962
Loans to banks	152,444	(18,767)	133,677	-	-	-
Loans to financial organizations	152,595	(52,100)	100,495	306,648	(2,188)	304,460
Loans to individuals	47,954	(11,172)	36,782	2,821,304	(154,483)	2,666,821
<i>Granted overdrafts</i>	37	(8)	29	230,590	(21,203)	209,387
<i>Loans for houses and flats</i>	8,208	(1,202)	7,006	1,313,669	(56,769)	1,256,900
<i>Consumer loans</i>	15,186	(4,391)	10,795	920,503	(51,052)	869,451
<i>Other loans</i>	24,523	(5,571)	18,952	356,542	(25,459)	331,083
Loans to other customers	3,863,191	(884,776)	2,978,415	4,428,902	(86,801)	4,342,101
<i>Loans to large corporate customers</i>	1,276,812	(294,705)	982,107	2,166,247	(15,882)	2,150,365
<i>Loans to small and medium size enterprises</i>	2,586,379	(590,071)	1,996,308	2,262,655	(70,919)	2,191,736
Other financial assets	33,349	(20,076)	13,273	22,016	(6,527)	15,489
TOTAL	4,331,458	(989,520)	3,341,938	7,587,000	(250,167)	7,336,833

i) Loans and advances analysis

31.12.2011	NLB				Total
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Collectively impaired loans and advances	Individually impaired loans and advances	
Loans to government	18,142	-	-	12,993	31,135
Loans to banks	594,031	1	-	589	594,621
Loans to financial organizations	-	-	824,057	300,879	1,124,936
Loans to individuals	19,191	48	1,941,074	8,748	1,969,061
<i>Granted overdrafts</i>	2	-	184,680	16	184,698
<i>Loans for houses and flats</i>	94	1	1,082,214	1,048	1,083,357
<i>Consumer loans</i>	19,095	47	620,141	7,682	646,965
<i>Other loans</i>	-	-	54,039	2	54,041
Loans to other customers	857,910	31,987	2,971,087	1,475,644	5,336,628
<i>Loans to large corporate customers</i>	827,872	23,108	1,562,219	772,773	3,185,972
<i>Loans to small and medium size enterprises</i>	30,038	8,879	1,408,868	702,871	2,150,656
Other financial assets	10,405	270	11,913	10,156	32,744
TOTAL	1,499,679	32,306	5,748,131	1,809,009	9,089,125

(All amounts in EUR thousand unless otherwise stated)

31.12.2010	NLB				Total
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Collectively impaired loans and advances	Individually impaired loans and advances	
Loans to government	29,836	-	-	14,800	44,636
Loans to banks	565,546	-	-	4,682	570,228
Loans to financial organizations	4	-	1,038,919	112,157	1,151,080
Loans to individuals	44,646	18	1,962,593	16,639	2,023,896
<i>Granted overdrafts</i>	-	-	184,544	28	184,572
<i>Loans for houses and flats</i>	23,985	4	1,034,945	717	1,059,651
<i>Consumer loans</i>	20,661	14	694,500	9,497	724,672
<i>Other loans</i>	-	-	48,604	6,397	55,001
Loans to other customers	769,781	87,937	3,703,784	1,418,695	5,980,197
<i>Loans to large corporate customers</i>	731,214	20,955	2,041,571	664,613	3,458,353
<i>Loans to small and medium size enterprises</i>	38,567	66,982	1,662,213	754,082	2,521,844
Other financial assets	10,299	185	17,058	10,580	38,122
TOTAL	1,420,112	88,140	6,722,354	1,577,553	9,808,159

31.12.2011	NLB Group				Total
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Collectively impaired loans and advances	Individually impaired loans and advances	
Loans to government	37,705	11,354	68,011	20,516	137,586
Loans to banks	736,067	497	-	47,190	783,754
Loans to financial organizations	1,068	1	277,826	101,476	380,371
Loans to individuals	57,509	30,434	2,689,410	21,947	2,799,300
<i>Granted overdrafts</i>	1,466	172	208,725	24	210,387
<i>Loans for houses and flats</i>	10,900	5,693	1,356,010	4,999	1,377,602
<i>Consumer loans</i>	21,778	1,111	858,266	8,088	889,243
<i>Other loans</i>	23,365	23,458	266,409	8,836	322,068
Loans to other customers	945,196	133,113	4,060,360	2,292,758	7,431,427
<i>Loans to large corporate customers</i>	851,215	35,278	1,753,460	993,753	3,633,706
<i>Loans to small and medium size enterprises</i>	93,981	97,835	2,306,900	1,299,005	3,797,721
Other financial assets	21,881	2,660	16,438	14,667	55,646
TOTAL	1,799,426	178,059	7,112,045	2,498,554	11,588,084

31.12.2010	NLB Group				Total
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Collectively impaired loans and advances	Individually impaired loans and advances	
Loans to government	106,239	27	7,962	79,296	193,524
Loans to banks	730,752	126	-	133,677	864,555
Loans to financial organizations	423	-	304,460	100,495	405,378
Loans to individuals	113,734	17,024	2,666,821	36,782	2,834,361
<i>Granted overdrafts</i>	-	207	209,387	29	209,623
<i>Loans for houses and flats</i>	39,418	1,806	1,256,900	7,006	1,305,130
<i>Consumer loans</i>	48,883	852	869,451	10,795	929,981
<i>Other loans</i>	25,433	14,159	331,083	18,952	389,627
Loans to other customers	956,167	239,176	4,342,101	2,978,415	8,515,859
<i>Loans to large corporate customers</i>	774,290	36,269	2,150,365	982,107	3,943,031
<i>Loans to small and medium size enterprises</i>	181,877	202,907	2,191,736	1,996,308	4,572,828
Other financial assets	20,438	3,078	15,489	13,273	52,278
TOTAL	1,927,753	259,431	7,336,833	3,341,938	12,865,955

j) Repossessed assets

NLB and the NLB Group received the following assets by taking possession of collateral held as security and held them at reporting date:

Nature of assets	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	Carrying amount		Carrying amount	
Securities (note 5.4.c)	113,032	139,551	113,032	139,551
Non-current assets held for sale (note 5.10.a)	-	1,292	-	27,572
Investment property (note 5.12.)	-	219	3,888	1,225
Property and equipment (note 5.11.)	7	7	7	7
Other assets (note 5.15.)	1,352	65	76,043	25,434
TOTAL	114,391	141,134	192,970	193,789

k) Analysis of loans and advances by industry sectors

Industry sector	NLB				NLB Group			
	31.12.2011				31.12.2010			
	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	596,853	(2,232)	594,621	6.57	573,207	(2,979)	570,228	5.84
Financial organizations	1,216,785	(84,805)	1,131,980	12.50	1,153,982	(30,986)	1,122,996	11.49
Electricity, gas and water	124,375	(5,890)	118,485	1.31	127,583	(3,106)	124,477	1.27
Construction industry	959,830	(277,203)	682,627	7.54	964,787	(125,877)	838,910	8.59
Heavy industry	1,327,385	(143,132)	1,184,253	13.09	1,431,064	(98,067)	1,332,997	13.64
Education	9,573	(398)	9,175	0.10	9,087	(424)	8,663	0.09
Agriculture, forestry and fishing	83,349	(33,708)	49,641	0.55	84,328	(31,810)	52,518	0.54
Public sector	95,620	(674)	94,946	1.05	112,567	(767)	111,800	1.14
Individuals	2,040,708	(71,647)	1,969,061	21.74	2,125,474	(101,578)	2,023,896	20.73
Mining	18,826	(242)	18,584	0.21	35,293	(574)	34,719	0.36
Entrepreneurs	159,884	(17,999)	141,885	1.57	178,930	(21,165)	157,765	1.61
Services	1,398,340	(220,548)	1,177,792	13.01	1,485,490	(179,781)	1,305,709	13.36
Transport and communications	1,087,480	(78,037)	1,009,443	11.15	1,198,247	(46,075)	1,152,172	11.79
Trade industry	964,111	(118,662)	845,449	9.34	1,016,497	(104,818)	911,679	9.33
Health care and social security	28,956	(517)	28,439	0.31	21,845	(337)	21,508	0.22
TOTAL	10,112,075	(1,055,694)	9,056,381	100.00	10,518,381	(748,344)	9,770,037	100.00

Industry sector	NLB				NLB Group			
	31.12.2011				31.12.2010			
	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	801,907	(18,153)	783,754	6.80	883,322	(18,767)	864,555	6.75
Financial organizations	448,104	(37,168)	410,936	3.56	445,388	(28,908)	416,480	3.25
Electricity, gas and water	160,354	(13,634)	146,720	1.27	185,612	(5,009)	180,603	1.41
Construction industry	1,279,895	(346,215)	933,680	8.10	1,355,504	(180,721)	1,174,783	9.17
Heavy industry	1,960,693	(286,992)	1,673,701	14.51	2,066,982	(203,265)	1,863,717	14.54
Education	28,942	(2,933)	26,009	0.23	29,871	(1,288)	28,583	0.22
Agriculture, forestry and fishing	161,084	(51,686)	109,398	0.95	172,593	(51,593)	121,000	0.94
Public sector	205,298	(3,901)	201,397	1.75	264,235	(3,547)	260,688	2.03
Individuals	2,937,360	(138,060)	2,799,300	24.27	3,000,020	(165,657)	2,834,363	22.12
Mining	50,563	(3,210)	47,353	0.41	152,849	(9,796)	143,053	1.12
Entrepreneurs	204,846	(24,881)	179,965	1.56	221,176	(26,975)	194,201	1.52
Services	1,919,302	(312,824)	1,606,478	13.93	2,099,218	(261,010)	1,838,208	14.35
Transport and communications	1,192,387	(96,760)	1,095,627	9.50	1,317,265	(60,875)	1,256,390	9.81
Trade industry	1,720,486	(245,673)	1,474,813	12.79	1,796,825	(194,941)	1,601,884	12.50
Health care and social security	44,464	(1,157)	43,307	0.38	35,901	(732)	35,169	0.27
TOTAL	13,115,685	(1,583,247)	11,532,438	100.00	14,026,761	(1,213,084)	12,813,677	100.00

l) Analysis of loans and advances by geographical sectors

Country	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Republic of Slovenia	7,319,582	7,861,061	7,510,772	8,166,348
Other European Union members	394,559	386,175	731,838	1,081,516
Other countries	1,342,240	1,522,801	3,289,828	3,565,813
TOTAL	9,056,381	9,770,037	11,532,438	12,813,677

m) Analysis of debt securities, treasury bills, other eligible bills and derivative financial instruments by geographical sectors

Country	NLB				NLB Group			
	Trading assets	Available for sale financial assets	Held to maturity investments	Derivative financial instruments	Trading assets	Available for sale financial assets	Held to maturity investments	Derivative financial instruments
Republic of Slovenia	13,996	614,620	721,644	48,829	13,996	653,014	721,644	48,302
Other members of European Union	33,152	669,324	346,347	68,550	33,152	786,828	346,347	68,912
- Italy	-	15,584	9,988	-	-	25,386	9,988	-
- Ireland	-	4,797	5,176	645	-	13,225	5,176	645
- Greece	-	-	1,748	-	-	4,329	1,748	-
- Spain	-	3,068	-	-	-	24,412	-	-
- Other	33,152	645,875	329,435	67,905	33,152	719,476	329,435	68,267
Other countries	809	10,576	-	8,209	1,550	314,489	-	7,798
TOTAL	47,957	1,294,520	1,067,991	125,588	48,698	1,754,331	1,067,991	125,012

Država	NLB				NLB Group			
	Trading assets	Available for sale financial assets	Held to maturity investments	Derivative financial instruments	Trading assets	Available for sale financial assets	Held to maturity investments	Derivative financial instruments
Republic of Slovenia	10,763	717,475	376,658	50,945	10,763	739,105	376,658	50,703
Other members of European Union	1,516	1,114,814	383,211	58,114	1,525	1,283,608	383,211	58,639
- Portugal	-	5,087	10,008	-	-	5,087	10,008	-
- Italy	-	103,230	15,093	-	-	116,090	15,093	-
- Ireland	-	4,674	10,442	722	-	12,895	10,442	722
- Greece	-	5,052	15,947	-	-	12,220	15,947	-
- Spain	-	12,605	20,199	-	-	37,337	20,199	-
- Other	1,516	984,166	311,522	57,392	1,525	1,099,979	311,522	57,917
Other countries	764	8,787	-	3,557	3,395	264,186	85	2,943
TOTAL	13,043	1,841,076	759,869	112,616	15,683	2,286,899	759,954	112,285

n) Internal rating of derivatives counterparties

NLB and NLB Group	31.12.2011	31.12.2010
	in %	in %
A	89.11	91.53
B	8.43	6.78
C	2.46	1.69
TOTAL	100.00	100.00

No derivatives in the banking book are entered into with counterparties with an external rating less than "AA". When derivatives are entered into on behalf of customers all such transactions are covered through back-to-back transactions involving third parties with an external rating of "AA" or above.

o) Debt securities in NLB's and the NLB Group's portfolio that represent subordinated liabilities for the issuer

NLB	31.12.2011	31.12.2010
Trading assets	2,277	2,409
Available for sale financial assets	529	-
TOTAL	2,806	2,409

Securities in NLB represent subordinated bonds of domestic issuer with internal rating "A". Other members of the NLB Group do not have debt securities that represent subordinated liabilities for the issuer.

p) Presentation of financial instruments by measurement category

31.12.2011	NLB							
	Trading assets	Financial assets designated at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity financial assets	Cash	Derivatives from hedge accounting	Total
Cash and obligatory reserves with central bank	-	-	-	218,612	-	86,363	-	304,975
Securities	91,627	2,074	1,425,570	11,994	1,067,991	-	-	2,599,256
- Bonds	13,016	-	1,032,244	-	803,295	-	-	1,848,555
- Shares	43,670	-	131,050	-	-	-	-	174,720
- Commercial bills	32,940	-	-	-	-	-	-	32,940
- Treasury bills	-	-	262,276	-	264,696	-	-	526,972
- Private equity fund	-	2,074	-	-	-	-	-	2,074
- Reverse sell and repurchase agreements	-	-	-	11,994	-	-	-	11,994
- Other investments	2,001	-	-	-	-	-	-	2,001
Derivatives	87,871	-	-	-	-	-	37,717	125,588
Loans and receivables	-	-	-	9,044,387	-	-	-	9,044,387
- Loans to government	-	-	-	31,135	-	-	-	31,135
- Loans to banks	-	-	-	584,428	-	-	-	584,428
- Loans to financial organizations	-	-	-	1,124,936	-	-	-	1,124,936
- Loans to individuals	-	-	-	1,969,061	-	-	-	1,969,061
<i>Granted overdrafts</i>	-	-	-	184,698	-	-	-	184,698
<i>Loans for houses and flats</i>	-	-	-	1,083,357	-	-	-	1,083,357
<i>Consumer loans</i>	-	-	-	646,965	-	-	-	646,965
<i>Other loans</i>	-	-	-	54,041	-	-	-	54,041
- Loans to other customers	-	-	-	5,334,827	-	-	-	5,334,827
<i>Loans to large corporate customers</i>	-	-	-	3,184,171	-	-	-	3,184,171
<i>Loans to small and medium size enterprises</i>	-	-	-	2,150,656	-	-	-	2,150,656
Other financial assets	-	-	-	32,744	-	-	-	32,744
TOTAL FINANCIAL ASSETS	179,498	2,074	1,425,570	9,307,737	1,067,991	86,363	37,717	12,106,950
31.12.2011	NLB Group							
	Trading assets	Financial assets designated at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity financial assets	Cash	Derivatives from hedge accounting	Total
Cash and obligatory reserves with central bank	-	-	-	671,281	-	162,664	-	833,945
Securities	92,405	3,661	1,888,043	11,994	1,067,991	-	-	3,064,094
- Bonds	13,757	-	1,194,559	-	803,295	-	-	2,011,611
- Shares	43,707	-	133,712	-	-	-	-	177,419
- Commercial bills	32,940	-	-	-	-	-	-	32,940
- Treasury bills	-	-	447,194	-	264,696	-	-	711,890
- Certificates of deposits	-	-	112,578	-	-	-	-	112,578
- Private equity fund	-	2,074	-	-	-	-	-	2,074
- Reverse sell and repurchase agreements	-	-	-	11,994	-	-	-	11,994
- Other investments	2,001	1,587	-	-	-	-	-	3,588
Derivatives	87,295	-	-	-	-	-	37,717	125,012
Loans and receivables	-	-	-	11,520,444	-	-	-	11,520,444
- Loans to government	-	-	-	137,586	-	-	-	137,586
- Loans to banks	-	-	-	773,561	-	-	-	773,561
- Loans to financial organizations	-	-	-	380,371	-	-	-	380,371
- Loans to individuals	-	-	-	2,799,300	-	-	-	2,799,300
<i>Granted overdrafts</i>	-	-	-	210,387	-	-	-	210,387
<i>Loans for houses and flats</i>	-	-	-	1,377,602	-	-	-	1,377,602
<i>Consumer loans</i>	-	-	-	889,243	-	-	-	889,243
<i>Other loans</i>	-	-	-	322,068	-	-	-	322,068
- Loans to other customers	-	-	-	7,429,626	-	-	-	7,429,626
<i>Loans to large corporate customers</i>	-	-	-	3,631,910	-	-	-	3,631,910
<i>Loans to small and medium size enterprises</i>	-	-	-	3,797,721	-	-	-	3,797,721
Other financial assets	-	-	-	55,646	-	-	-	55,646
TOTAL FINANCIAL ASSETS	179,700	3,661	1,888,043	12,259,365	1,067,991	162,664	37,717	15,599,141

As at December 31, 2011 and December 31, 2010 all of the Group's financial liabilities except for derivatives designated as hedging instruments, trading liabilities and financial liabilities designated at fair value through profit or loss were carried at amortised cost.

31.12.2010	NLB							
	Trading assets	Financial assets designated at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity financial assets	Cash	Derivatives from hedge accounting	Total
Cash and obligatory reserves with central bank	-	-	-	111,878	-	92,551	-	204,429
Securities	78,207	23,781	1,985,181	18,656	759,869	-	-	2,865,694
- Bonds	12,599	-	1,178,181	-	759,869	-	-	1,950,649
- Shares	65,164	23,781	164,698	-	-	-	-	253,643
- Treasury bills	-	-	585,631	-	-	-	-	585,631
- Reverse sell and repurchase agreements	-	-	-	18,656	-	-	-	18,656
- Other investments	444	-	56,671	-	-	-	-	57,115
Derivatives	77,032	-	-	-	-	-	35,584	112,616
Loans and receivables	-	-	-	9,751,381	-	-	-	9,751,381
- Loans to government	-	-	-	44,636	-	-	-	44,636
- Loans to banks	-	-	-	560,959	-	-	-	560,959
- Loans to financial organizations	-	-	-	1,151,080	-	-	-	1,151,080
- Loans to individuals	-	-	-	2,023,896	-	-	-	2,023,896
<i>Granted overdrafts</i>	-	-	-	184,572	-	-	-	184,572
<i>Loans for houses and flats</i>	-	-	-	1,059,651	-	-	-	1,059,651
<i>Consumer loans</i>	-	-	-	724,672	-	-	-	724,672
<i>Other loans</i>	-	-	-	55,001	-	-	-	55,001
- Loans to other customers	-	-	-	5,970,810	-	-	-	5,970,810
<i>Loans to large corporate customers</i>	-	-	-	3,448,966	-	-	-	3,448,966
<i>Loans to small and medium size enterprises</i>	-	-	-	2,521,844	-	-	-	2,521,844
Other financial assets	-	-	-	38,122	-	-	-	38,122
TOTAL FINANCIAL ASSETS	155,239	23,781	1,985,181	9,920,037	759,869	92,551	35,584	12,972,242
31.12.2010	NLB Group							
	Trading assets	Financial assets designated at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Held to maturity financial assets	Cash	Derivatives from hedge accounting	Total
Cash and obligatory reserves with central bank	-	-	-	602,750	-	165,707	-	768,457
Securities	80,990	25,674	2,433,714	18,656	759,954	-	-	3,318,988
- Bonds	15,239	-	1,407,527	-	759,954	-	-	2,182,720
- Shares	65,307	23,781	167,409	-	-	-	-	256,497
- Treasury bills	-	-	738,234	-	-	-	-	738,234
- Certificates of deposits	-	-	63,873	-	-	-	-	63,873
- Reverse sell and repurchase agreements	-	-	-	18,656	-	-	-	18,656
- Other investments	444	1,893	56,671	-	-	-	-	59,008
Derivatives	76,701	-	-	-	-	-	35,584	112,285
Loans and receivables	-	-	-	12,795,021	-	-	-	12,795,021
- Loans to government	-	-	-	193,524	-	-	-	193,524
- Loans to banks	-	-	-	855,286	-	-	-	855,286
- Loans to financial organizations	-	-	-	405,378	-	-	-	405,378
- Loans to individuals	-	-	-	2,834,361	-	-	-	2,834,361
<i>Granted overdrafts</i>	-	-	-	209,623	-	-	-	209,623
<i>Loans for houses and flats</i>	-	-	-	1,305,130	-	-	-	1,305,130
<i>Consumer loans</i>	-	-	-	929,981	-	-	-	929,981
<i>Other loans</i>	-	-	-	389,627	-	-	-	389,627
- Loans to other customers	-	-	-	8,506,472	-	-	-	8,506,472
<i>Loans to large corporate customers</i>	-	-	-	3,933,644	-	-	-	3,933,644
<i>Loans to small and medium size enterprises</i>	-	-	-	4,572,828	-	-	-	4,572,828
Other financial assets	-	-	-	52,278	-	-	-	52,278
TOTAL FINANCIAL ASSETS	157,691	25,674	2,433,714	13,468,705	759,954	165,707	35,584	17,047,029

Market risk is the risk that the market or fair value of financial instruments could fluctuate due to unfavourable changes in specific market parameters, such as exchange rates, interest rates and securities prices. Market risk management at the NLB Group is a process comprising the monitoring and measurement of individual risks with the aim of actively managing the potential negative financial effects that could arise as a result of changes on the financial markets.

In accordance with the provisions of Bank of Slovenia regulations, NLB is the only bank in the NLB Group that fulfils the conditions for ensuring the necessary capital for market risks. In accordance with Strategy for trading in Financial Instruments at the NLB Group, active trading in financial instruments by other NLB Group companies is extremely limited, and primarily aimed at servicing customers and hedging their own positions. Other banks in the NLB Group monitor exposure to currency and interest-rate risks, which are primarily the result of structural movements and macroeconomic conditions, in accordance with guidelines on risk management in the NLB Group. Monitoring and managing the NLB Group's exposure to market risks are not carried out on a consolidated level. Guidelines and exposure limits for each risk type are set for individual NLB Group companies, who regularly monitor exposure and report to the Assets and Liabilities Committee of the NLB Group (ALCO of NLB Group).

The supervisory bodies of NLB Group entities adopt their own market risk management policies. In accordance with these policies, they are obliged to monitor and manage exposures to market risks and report them to NLB. The policies of NLB Group entities must take into account local legislation and be in line with the Standards for risk management at the NLB Group. The aforementioned document was approved and adopted by NLB's Management Board. Methodologies concur with regulatory requirements on an individual and consolidated basis, while current reporting to the regulator on consolidated level is carried out using a standardized approach.

a) Capital markets summary

Slovenia

Total turnover on the Ljubljana Stock Exchange reached EUR 470 million in 2011 (i.e. turnover on the share, bond and fund markets), down EUR 22.5 million on the turnover achieved in 2010 and just half of the total turnover recorded in 2009. The annual number of transactions was 97,580 and was down 21% on 2010, mainly due to a decline in transactions in shares. The stock exchange's main index, the SBI TOP, lost about 30% of its value in 2011, which is in line with the performance of the comparable Central and Eastern Europe CEESEG composite index. As at December 31, 2011 the market capitalization of all shares included in the SBI TOP index amounted to EUR 3.7 billion, a decline of close to EUR 1 billion on the end of 2010, which is double the decrease in market capitalization recorded a year earlier.

Despite the fact that the return of the main index was comparable to other markets in the region, liquidity remained at extremely low levels. The annual market capitalization turnover was comparable to that of the Zagreb Stock Exchange, while reported turnover was substantially lower when compared to other more developed indices in Central and Eastern Europe, such as Warsaw, Prague and Vienna. In the case of the SBI TOP, annual turnover was about one quarter of total market capitalization, while that percentage was close to 200% on the aforementioned, more developed markets. Moreover, 48% of total turnover can be attributed to the most heavily traded shares of Krka, while that proportion rises to 74% taking into account the second most heavily traded shares of Mercator.

Similar to 2010, the reasons for the drop in share prices can be attributed to sell-orientated domestic investors. This fact is confirmed by the rising proportion of foreign investors, while the total number of investors continued to decline.

Foreign markets

The year 2011 was marked primarily by the deepening debt crisis in Europe, while economic growth in developing countries started to slow. Following 4% global GDP growth in 2010, last year's global economic growth is estimated at around 2.7%, with a further slowdown expected this year. Owing to the abovementioned debt crisis, the slowdown will be particularly pronounced in the euro area, as forecasts indicate a contraction in GDP. The US shows a more stable picture, with forecasts of a slight strengthening of growth, while developing markets will record slower growth than the previous year mainly due to the weakening of exports. Fears of rising inflation have shifted to the background, giving central banks and governments more power to continue with crisis measures.

Due to the abovementioned debt problems in Europe, safer government bonds became the focus of investors last year. With investors seeking a safe haven and the resulting increase in demand, the prices of these bonds rose, while the yield on 10-year German government bonds fell from around 3% at the beginning of the year to 1.8% at the end of the year. US government bonds recorded similar dynamics. On the other hand, some major

European countries, Italy in particular, witnessed a sharp increase in borrowing costs due to budgetary problems, with the yield on 10-year Italian bonds exceeding over 7%, which remains an important benchmark for investors, as countries with low economic growth have difficulties affording such expensive borrowing.

On the other hand, the factors that caused the flight of investors to safer investments resulted in a high level of volatility on the stock markets, which showed relatively stable growth in the first half of the year, but swung sharply with the deepening of the European debt crisis, ending the year in the red. With a lower drop in the US stock markets, where the S&P 500 index fell just short of positive growth, European stock indices mostly recorded double-digit losses, in particular the German DAX (down 14.7%), the UK FTSE (down 6.5%) and the French CAC 40 (down 17%). Since stock markets are also leading indicators of future medium-term economic trends, the higher losses recorded by European stocks may also be explained by the weaker economic outlook for Europe, while slowing growth in developing markets, where the public finance situation is better, is also an important factor of the negative dynamics.

Equity trading portfolios excluding equity investments hedged using derivative contracts

NLB	31.12.2011	31.12.2010
	in %	in %
Region		
Europe	0.1	5.7
Diversified Mutual Funds and Closed-end Funds	62.7	67.6
Slovenia	37.1	16.3
North America	0.1	6.0
Asia (ETF)	-	4.2
Rest of the World	-	0.2

NLB	31.12.2011	31.12.2010
	in %	in %
Industry		
Basic Materials	0.1	0.8
Telecommunications	-	0.4
Consumer Cyclical	-	0.8
Consumer Non-cyclical	-	1.3
Energy	-	2.0
Financial	0.1	1.3
Industrial	37.1	17.8
Technology	-	1.5
Utilities	-	0.5
Healthcare	-	1.6
Diversified Mutual Funds and Closed-end Funds	62.7	67.6
ETF	-	4.4

b) Value at Risk methodology

NLB's exposure to currency and other market risks in the trading book (interest rate risk and the changing securities prices) is monitored using the "Value at Risk" (VAR) methodology.

In the area of interest rate risk in the banking book, an analysis is performed of the sensitivity of interest income, which is estimated on the basis of the net interest income methodology. For equity securities in the banking book, exposure to risks is measured using a VAR calculation and sensitivity analysis.

Currency risk

NLB uses an internal »Value at Risk« (VAR) model to calculate currency risk arising from open positions. The calculation of the VAR value is adjusted to Basel standards (99% confidence interval, monitored period of 300 business days, 10-day holding position period), and is based on the historical simulation method. VAR is calculated for currency risk for the whole open bank position (e.g. the position of trading and banking book together) as NLB's total open position is managed by the Treasury department.

NLB	2011			2010		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Currency risk (trading book and banking book)	467	2,279	192	1,132	2,869	704

The main factor in currency risk exposure in 2011 was the open position in Serbian Dinars (RSD). The open RSD position was the result of restructured loans and the related currency conversion. Also contributing to currency exposure in 2011 was the CHF position, where the rate was relatively volatile. Lower values in 2011 were mainly due to lower open positions. To a lesser degree, this also to the fact that NLB transitioned to the net combined approach in November 2011, which means that the position also took into account impairments for bad claims.

The methodology for measuring currency risk at the NLB Group level is based on the net open foreign exchange position principle and the monitoring of the nominal limits (for the total open position by currency), related to the capital size of the NLB Group member. The internal VAR method described above is used for the illustration below of exposure to currency risk, which derives from the quarterly net open positions of NLB Group entities.

NLB Group	2011			2010		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Currency risk (trading book and banking book)	5,855	6,777	4,647	4,374	5,622	3,599

The increase in VAR for currency risk in NLB Group is driven by the higher net open position for individual NLB Group entities and increasing exchange rate volatility. The latter was the result of continuance of conditions on the financial markets in 2011, which consequently affected potential loss or the level of VAR.

Other market risks in the trading book

NLB uses an internal VAR model based on the variance-covariance method for other market risks. The daily calculation of VAR value is adjusted to Basel standards (99% confidence interval, monitored period of 250 business days, 10-day holding position period).

In 2011, interest rate risks in the trading book amounted to an average of EUR 198 thousand (2010: EUR 342 thousand) and remained on a relatively similar level compared with the previous year. At the end of 2011 the market value of the debt securities portfolio amounted to EUR 13 million (2010: EUR 12.6 million), while the exposure from derivatives trading derives primarily from Bond future contracts.

The risk of changing securities prices (debt securities portfolio) in the trading book fluctuated between EUR 2.9 and 4.0 million in 2011 (2010: between EUR 3.0 and 4.3 million). The principal part of the exposure arose from realizing the received collateral for credit loans in the long-term trading portfolio.

NLB and NLB Group	2011			2010		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk in trading book	198	492	86	342	964	145
Equity risk in trading book	3,195	4,013	2,855	3,540	4,321	3,070

The average, maximum and minimum values in the upper table are calculated on the basis of daily VAR calculations, which are based on daily open positions and movements in market data during the past monitored period (300 or 250 working days). The "average" value represents the arithmetic mean of daily VAR values in 2011, while the "maximum" and "minimum" values represent the highest and lowest values of daily VAR calculations in 2011 respectively.

Interest rate risk in the banking book

The NLB Group's exposure to interest rate is monitored and managed by using an interest rate gaps methodology and duration. The same methodology is also used to calculate the NLB Group's sensitivity of interest income. The analysis of interest income sensitivity assumes a move in interest rates by 50 basis points in the short term. The analysis is based on the assumption that the positions used remain unchanged and that the yield curve shift is parallel. The assessment of the impact of a change in interest rates of 50 basis points (+/- 0.5%) on the value of net interest income for the banking book position:

2011	NLB			NLB Group		
	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
EUR: Interest income sensitivity	2,504	53	5,719	7,439	4,040	11,411
USD: Interest income sensitivity	79	3	195	-	-	-
CHF: Interest income sensitivity	127	20	268	-	-	-

2010	NLB			NLB Group		
	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
EUR: Interest income sensitivity	4,049	566	7,288	8,836	3,630	12,487
USD: Interest income sensitivity	119	4	566	-	-	-
CHF: Interest income sensitivity	117	9	399	-	-	-

In 2011, the value of interest income sensitivity remained relatively stable, but was slightly more volatile than in the previous year. Exposure to interest rate risks primarily derives from the portfolio of first-class debt securities (ECB eligible), which represent a source of secondary liquidity. The exposure arising from classic loan-deposit transactions was relatively low owing to the active management of these positions. The long-term interest rate positions of other NLB Group entities, from which the majority of interest rate risk derives, are relatively closed.

The values in the table have been calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period.

Risk of a change in prices in the portfolio of equity securities in the banking book

In terms of equity security investments, NLB has adopted policies for management of these investments that were approved by the Management and the Supervisory Board. The policies cover the permitted investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology NLB also uses an internal model, which has been adapted to the requirements of the Basel standards, for monitoring and measuring the risks related to the equity portfolio.

The value of the equities portfolio in the banking book in NLB amounted to EUR 133 million by the end of 2011 (December 31, 2010: EUR 188.5 million) of this EUR 113 million (December 31, 2010: EUR 139.5 million) represented realized collateral, the long-term portfolio represented in amount of EUR 18 million (December 31, 2010: EUR 25.2 million) as available for sale financial asset and in amount of EUR 2 million (December 31, 2010: EUR 23.8 million) as financial asset designated at fair value through profit or loss. The value of VAR for the equities portfolio in the banking book amounted to EUR 14.75 million at the end of 2011 (2010: EUR 12.4 million). Assuming a fall in stock market indices or individual securities prices of 15% (2010: 15%), the value of the portfolio would decrease by EUR 19.96 million (December 31, 2010: EUR 28.3 million).

Guidelines were prepared for the effective management of risks in the investment banking sector in the scope of the NLB Group's financial instruments trading strategy. Trading in equity securities for subsidiaries is not permitted. Only stock broking services are provided. The majority of the equity securities portfolio in the banking book derives from NLB's position, while smaller positions are also disclosed by certain NLB Group entities.

The value of equity portfolio in the NLB Group stood at EUR 137.4 million at the end of 2011 (December 31, 2010: EUR 193 million) of this EUR 113 million (December 31, 2010: EUR 139.5 million) represented realized collateral, the long-term portfolio represented in amount of EUR 20.7 million (December 31, 2010: EUR 27.8 million) as available for sale financial asset and in amount of EUR 3.7 million (December 31, 2010: EUR 25.7 million) as financial asset designated at fair value through profit or loss. Assuming a fall in stock market indices or individual securities prices of 15% (2010: 15%) the value of the portfolio would decrease by EUR 20.37 million (December 31, 2010: decrease by EUR 29 million).

c) Currency Risk (FX)

The NLB Group manages currency risks in accordance with the adopted currency risk management policy adopted by NLB's Assets and Liabilities Committee. The positions of all currencies in the NLB's statement of financial position for which a daily limit has been set are monitored daily.

Exposure to currency risks is monitored and managed by the Assets and Liabilities Management Department on the basis of daily data obtained from the Risk Management Department. Assets and Liabilities Management Department manages exposure to currency risks by currency, so that they are always within the limits.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the NLB's Assets and Liabilities Committee.

The amount of financial instruments denominated in euros and in foreign currency

31.12.2011	NLB				Total
	EUR	USD	CHF	Other	
FINANCIAL ASSETS					
Cash and balances with central banks	294,659	2,341	2,633	5,342	304,975
Trading assets	178,620	809	-	69	179,498
Financial assets designated at fair value through profit or loss	2,074	-	-	-	2,074
Available for sale financial assets	1,407,568	18,001	-	1	1,425,570
Derivatives - hedge accounting	37,717	-	-	-	37,717
Loans and advances to banks	478,161	43,106	15,052	58,302	594,621
Loans and advances to customers	8,021,898	45,590	297,850	96,422	8,461,760
Held to maturity investments	1,067,991	-	-	-	1,067,991
Fair value changes of the hedged items in portfolio hedge of interest rate risk	603	-	-	-	603
Other financial assets	32,139	285	114	206	32,744
TOTAL FINANCIAL ASSETS	11,521,430	110,132	315,649	160,342	12,107,553
FINANCIAL LIABILITIES					
Deposits from Central Banks	250,062	-	-	-	250,062
Trading liabilities	93,723	-	-	-	93,723
Financial liabilities designated at fair value through profit or loss	2,074	-	-	-	2,074
Derivatives - hedge accounting	43,139	-	-	-	43,139
Deposits from banks	74,449	19,446	11,619	13,474	118,988
Borrowings from banks	1,576,635	68,837	125,404	-	1,770,876
Due to customers	7,362,227	107,492	53,061	37,163	7,559,943
Borrowings from other customers	32,938	-	-	-	32,938
Debt securities in issue	1,234,987	-	-	-	1,234,987
Subordinated liabilities	750,893	-	-	-	750,893
Fair value changes of the hedged items in portfolio hedge of interest rate risk	580	-	-	-	580
Other financial liabilities	32,477	10	12	4	32,503
TOTAL FINANCIAL LIABILITIES	11,454,184	195,785	190,096	50,641	11,890,706
Net on-balance sheet financial position	67,246	(85,653)	125,553	109,701	216,847
Derivative financial instruments	186,930	75,065	(155,880)	(114,349)	(8,234)
31.12.2010					
TOTAL FINANCIAL ASSETS	12,402,100	130,311	365,972	94,753	12,993,136
TOTAL FINANCIAL LIABILITIES	12,319,600	202,325	188,717	35,315	12,745,957
Net on-balance sheet financial position	82,500	(72,014)	177,255	59,438	247,179
Derivative financial instruments	154,528	66,029	(189,141)	(50,306)	(18,890)

31.12.2011	NLB Group				
	EUR	USD	CHF	Other	Total
FINANCIAL ASSETS					
Cash and balances with central banks	550,692	6,543	11,352	265,358	833,945
Trading assets	178,753	809	-	138	179,700
Financial assets designated at fair value through profit or loss	3,661	-	-	-	3,661
Available for sale financial assets	1,623,286	18,751	-	246,006	1,888,043
Derivatives - hedge accounting	37,717	-	-	-	37,717
Loans and advances to banks	552,363	110,111	42,458	78,822	783,754
Loans and advances to customers	9,934,678	37,790	312,828	463,388	10,748,684
Held to maturity investments	1,067,991	-	-	-	1,067,991
Fair value changes of the hedged items in portfolio hedge of interest rate risk	603	-	-	-	603
Other financial assets	45,512	347	913	8,874	55,646
TOTAL FINANCIAL ASSETS	13,995,256	174,351	367,551	1,062,586	15,599,744
FINANCIAL LIABILITIES					
Deposits from Central Banks	310,097	-	-	-	310,097
Trading liabilities	94,068	-	-	58	94,126
Financial liabilities designated at fair value through profit or loss	2,074	-	-	-	2,074
Derivatives - hedge accounting	43,139	-	-	-	43,139
Deposits from banks	110,351	10,768	6,269	13,481	140,869
Borrowings from banks	1,965,321	69,349	127,959	30,951	2,193,580
Due to customers	9,193,671	182,517	73,621	743,887	10,193,696
Borrowings from other customers	217,350	-	-	1,554	218,904
Debt securities in issue	1,232,934	-	-	-	1,232,934
Subordinated liabilities	783,566	-	-	-	783,566
Fair value changes of the hedged items in portfolio hedge of interest rate risk	580	-	-	-	580
Other financial liabilities	40,898	154	81	6,313	47,446
TOTAL FINANCIAL LIABILITIES	13,994,049	262,788	207,930	796,244	15,261,011
Net on-balance sheet financial position	1,207	(88,437)	159,621	266,342	338,733
Derivative financial instruments	195,162	78,938	(147,735)	(113,650)	12,715
31.12.2010					
TOTAL FINANCIAL ASSETS	15,215,018	197,112	399,845	1,168,296	16,980,271
TOTAL FINANCIAL LIABILITIES	15,256,117	274,491	214,638	908,630	16,653,876
Net on-balance sheet financial position	(41,099)	(77,379)	185,207	259,666	326,395
Derivative financial instruments	133,002	61,996	(179,641)	(50,330)	(34,973)

Sensitivity analysis for currency risk

2011	NLB		NLB Group	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	(11,581)	(15)	(12,204)	(15)
CHF	24,021	-	29,273	7,133
CZK	5,363	-	5,363	(2,523)
RSD	601	-	601	4,586
MKD	1	-	1	405
Other	1,866	-	1,866	125
Effects on comprehensive income	20,271	(15)	24,900	9,711
Depreciation of				
USD	9,118	12	9,609	12
CHF	(17,373)	-	(21,172)	(5,159)
CZK	(4,679)	-	(4,679)	2,202
RSD	(497)	-	(497)	(3,794)
MKD	(3)	-	(3)	(399)
Other	(1,460)	-	(1,460)	(121)
Effects on comprehensive income	(14,894)	12	(18,202)	(7,259)
TOTAL	5,377	(3)	6,698	2,452
2010	NLB		NLB Group	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	(9,868)	29	(10,624)	29
CHF	17,381	-	17,045	1,539
CZK	2,263	-	2,263	(679)
RSD	251	-	251	4,210
MKD	13	-	13	1,345
Other	2,609	-	2,609	431
Effects on comprehensive income	12,649	29	11,558	6,876
Depreciation of				
USD	7,746	(23)	8,339	(23)
CHF	(14,531)	-	(14,252)	(1,286)
CZK	(1,988)	-	(1,988)	596
RSD	(226)	-	(226)	(3,787)
MKD	(13)	-	(13)	(1,292)
Other	(1,931)	-	(1,931)	(388)
Effects on comprehensive income	(10,942)	(23)	(10,070)	(6,180)
TOTAL	1,707	6	1,488	696
NLB and NLB Group			31.12.2011	31.12.2010
Scenarios				
USD			+/-12%	+/-12%
CHF			+/-16%	+/-9%
CZK			+/-7%	+/-6%
RSD			+/-9%	+/-5%
MKD			+/-0,5%	+/-2%
JPY			+/-14%	+/-15%
AUD			+/-11%	+/-12%
HUF			+/-12%	+/-11%
HRK			+/-2%	+/-2%

d) Managing interest rate risk

The management of interest rate risks in the NLB banking book is separated from the measurement and monitoring of these risks. In the past, NLB implemented an interest rate risk management policy, which reflects a conservative strategy for assuming interest rate risks and is based on general Basel risk management standards.

NLB manages interest rate risk in conjunction with credit, currency and liquidity risks, as exposure to interest rate risk is frequently the result of exposure to other risks. These risks also have significant impact on the stability of the interest rate margin, which represents the primary goal of interest rate risk management.

In the banking book, NLB manages interest rate risks arising from interest-insensitive liability items and interest-sensitive items without maturity (e.g. available capital and stable sight deposits) separately from all other banking book transactions. The management of interest rate risks arising from interest-insensitive items and items without maturity is facilitated by managing the securities portfolio of the banking book, which is subject to strict internal rules and policies. The primary purpose of the portfolio is to maintain adequate secondary liquidity reserves. By determining the upper limit of modified duration and limits for credit and market risks, it also contributes to the stability of interest rate margin.

The management of interest rate risks arising from all other banking book transactions is provided by managing the interest rate maturity of statement of financial position and off-balance sheet items, which NLB classifies by individual maturity buckets, taking into account credit-risk adjusted positions by currency. The openness of positions in individual maturity buckets in one direction or the other is defined in absolute amounts. According to the recommendations of the Basel guidelines, the same restriction is applied to potential changes in the net present value of all interest-sensitive items.

A sensitivity analysis is performed based on the Basis Point Value (BPV) method, which estimates changes in the market value of a banking book position due to a parallel shift in the yield curve. A sensitivity analysis is performed for different segments of the banking book and for the banking book as a whole, where all transactions are captured, by all currencies with an adjustment for credit risk.

The basic tool for the managing interest rate risk in the banking book is the management of NLB's statement of financial position items. The strategies that foresee adequate adjustments to the statement of financial position items are discussed and adopted at the executive level of NLB or in the scope of NLB's Assets and Liabilities Committee (ALCO). NLB primarily uses the following methods for managing interest rate risks:

- managing the portfolio of debt securities in the banking book,
- issuing own securities,
- introducing new banking products and special treatment of the existing products and
- managing the maturity of existing statement of financial position items.

NLB's ALCO regularly discusses and supervises the adaptation of the offered range and price ratios of banking products in order to limit interest rate risk exposure.

More precise management of interest rate risks, which NLB does not manage via statement of financial position items, is carried out by transactions in derivatives, using the following instruments:

- interest rate swaps,
- overnight index swaps,
- cross currency swaps,
- forward rate agreements and
- interest rate futures.

The management of the NLB Group's interest rate exposure is not performed at the consolidated level. However, NLB regularly monitors exposure in accordance with the Development Program and Minimum Standards for Risk Management in NLB Group, which defines the guidelines for the banking group's effective and uniform approach to interest rate risk management. The NLB Group strengthened the monitoring and management of interest rate positions at individual NLB Group companies, where the same core principles of interest rate risk management applied by NLB are applied, taking into account the local business environment. Interest rate risk exposure is also monitored on the basis of interest rate gaps, and a sensitivity analysis based on the BPV method and associated limits. Guidelines regarding the limitation and management of interest risks at individual NLB Group companies are in line with the guidelines of the NLB Group ALCO and with the ALCOs of these banks.

Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments, categorized by the earlier of contractual repricing or residual maturity.

31.12.2011

NLB	Total	Non interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
FINANCIAL ASSETS								
Cash and balances with central banks	304,975	86,430	218,545	218,545	-	-	-	-
Trading assets	179,498	43,848	135,650	90,890	33,351	-	11,409	-
Financial assets designated at fair value through profit or loss	2,074	2,074	-	-	-	-	-	-
Available for sale financial assets	1,425,570	155,509	1,270,061	114,604	281,856	223,043	445,085	205,473
Derivatives - hedge accounting	37,717	37,717	-	-	-	-	-	-
Loans and advances to banks	594,621	3,409	591,212	309,948	98,372	171,302	11,590	-
Loans and advances to customers	8,461,760	174,591	8,287,169	3,822,062	1,777,922	2,088,766	393,606	204,813
Held to maturity investments	1,067,991	21,843	1,046,148	21,998	14,997	26,346	595,746	387,061
Fair value changes of the hedged items in portfolio hedge of interest rate risk	603	603	-	-	-	-	-	-
Other financial assets	32,744	32,744	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS	12,107,553	558,768	11,548,785	4,578,047	2,206,498	2,509,457	1,457,436	797,347
FINANCIAL LIABILITIES								
Deposits from central banks	250,062	62	250,000	250,000	-	-	-	-
Trading liabilities	93,723	-	93,723	93,723	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,074	2,074	-	-	-	-	-	-
Derivatives - hedge accounting	43,139	43,139	-	-	-	-	-	-
Deposits from banks	118,988	64	118,924	111,778	1,539	5,407	200	-
Borrowings from banks	1,770,876	11,278	1,759,598	607,532	548,311	588,332	11,446	3,977
Due to customers	7,559,943	57,335	7,502,608	4,314,317	871,921	1,507,836	798,285	10,249
Borrowings from other customers	32,938	338	32,600	1	20,000	10,000	2,599	-
Debt securities in issue	1,234,987	17,427	1,217,560	23,865	54,182	1,058,497	81,016	-
Subordinated liabilities	750,893	6,264	744,629	325,043	309,002	-	48,754	61,830
Fair value changes of the hedged items in portfolio hedge of interest rate risk	580	580	-	-	-	-	-	-
Other financial liabilities	32,503	32,503	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	11,890,706	171,064	11,719,642	5,726,259	1,804,955	3,170,072	942,300	76,056
TOTAL INTEREST REPRICING GAP				(1,148,212)	401,543	(660,615)	515,136	721,291

31.12.2010

NLB	Total	Non interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
FINANCIAL ASSETS								
Cash and balances with central banks	204,429	92,640	111,789	111,789	-	-	-	-
Trading assets	155,239	65,375	89,864	77,694	-	4,368	7,802	-
Financial assets designated at fair value through profit or loss	23,781	23,781	-	-	-	-	-	-
Available for sale financial assets	1,985,181	189,615	1,795,566	181,595	273,584	595,501	477,450	267,436
Derivatives - hedge accounting	35,584	35,584	-	-	-	-	-	-
Loans and advances to banks	570,228	2,674	567,554	289,643	130,465	135,217	12,229	-
Loans and advances to customers	9,199,809	122,275	9,077,534	3,879,731	2,202,593	2,385,669	458,546	150,995
Held to maturity investments	759,869	19,828	740,041	52,987	-	29,205	348,103	309,746
Fair value changes of the hedged items in portfolio hedge of interest rate risk	301	301	-	-	-	-	-	-
Pledged assets	20,593	-	20,593	-	-	9,987	10,606	-
Other financial assets	38,122	38,122	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS	12,993,136	590,195	12,402,941	4,593,439	2,606,642	3,159,947	1,314,736	728,177
FINANCIAL LIABILITIES								
Trading liabilities	90,873	-	90,873	90,873	-	-	-	-
Derivatives - hedge accounting	28,107	28,107	-	-	-	-	-	-
Deposits from banks	179,396	34	179,362	157,174	21,547	501	140	-
Borrowings from banks	2,051,757	9,030	2,042,727	539,560	782,455	705,171	11,055	4,486
Due to customers	7,663,670	56,772	7,606,898	4,280,708	950,383	1,606,024	760,520	9,263
Borrowings from other customers	14,086	35	14,051	2	-	10,002	4,047	-
Debt securities in issue	1,793,520	25,917	1,767,603	23,909	96,272	27,793	1,580,451	39,178
Subordinated liabilities	848,413	7,304	841,109	324,625	407,030	-	48,676	60,778
Financial liabilities associated with transferred assets	20,669	20,669	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,134	1,134	-	-	-	-	-	-
Other financial liabilities	54,332	54,332	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	12,745,957	203,334	12,542,623	5,416,851	2,257,687	2,349,491	2,404,889	113,705
TOTAL INTEREST REPRICING GAP				(823,412)	348,955	810,456	(1,090,153)	614,472

31.12.2011

NLB Group	Total	Non interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
FINANCIAL ASSETS								
Cash and balances with central banks	833,945	281,984	551,961	551,961	-	-	-	-
Trading assets	179,700	44,280	135,420	90,660	33,351	-	11,409	-
Financial assets designated at fair value through profit or loss	3,661	3,661	-	-	-	-	-	-
Available for sale financial assets	1,888,043	157,416	1,730,627	368,951	416,966	283,942	455,040	205,728
Derivatives - hedge accounting	37,717	37,717	-	-	-	-	-	-
Loans and advances to banks	783,754	6,623	777,131	565,182	101,864	99,986	9,690	409
Loans and advances to customers	10,748,684	252,862	10,495,822	4,059,192	2,083,418	2,967,445	1,015,318	370,449
Held to maturity investments	1,067,991	21,843	1,046,148	21,998	14,997	26,346	595,746	387,061
Fair value changes of the hedged items in portfolio hedge of interest rate risk	603	603	-	-	-	-	-	-
Other financial assets	55,646	55,646	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS	15,599,744	862,635	14,737,109	5,657,944	2,650,596	3,377,719	2,087,203	963,647
FINANCIAL LIABILITIES								
Deposits from central banks	310,097	97	310,000	270,000	40,000	-	-	-
Trading liabilities	94,126	-	94,126	94,126	-	-	-	-
Financial liabilities designated at fair value through profit or loss	2,074	2,074	-	-	-	-	-	-
Derivatives - hedge accounting	43,139	43,139	-	-	-	-	-	-
Deposits from banks	140,869	915	139,954	128,787	2,314	8,653	200	-
Borrowings from banks	2,193,580	12,249	2,181,331	751,104	601,697	750,840	56,534	21,156
Due to customers	10,193,696	114,589	10,079,107	5,522,608	1,167,687	2,325,699	1,045,860	17,253
Borrowings from other customers	218,904	714	218,190	715	64,150	45,277	68,832	39,216
Debt securities in issue	1,232,934	17,209	1,215,725	23,865	54,182	1,058,497	79,181	-
Subordinated liabilities	783,566	6,539	777,027	336,087	320,895	4,961	53,254	61,830
Fair value changes of the hedged items in portfolio hedge of interest rate risk	580	580	-	-	-	-	-	-
Other financial liabilities	47,446	47,446	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	15,261,011	245,551	15,015,460	7,127,292	2,250,925	4,193,927	1,303,861	139,455
TOTAL INTEREST REPRICING GAP				(1,469,348)	399,671	(816,208)	783,342	824,192

31.12.2010

NLB Group	Total	Non interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
FINANCIAL ASSETS								
Cash and balances with central banks	764,895	303,628	461,267	461,267	-	-	-	-
Trading assets	157,691	66,052	91,639	79,469	-	4,368	7,802	-
Financial assets designated at fair value through profit or loss	25,674	25,674	-	-	-	-	-	-
Available for sale financial assets	2,433,414	192,655	2,240,759	299,011	459,603	706,747	496,123	279,275
Derivatives - hedge accounting	35,584	35,584	-	-	-	-	-	-
Loans and advances to banks	850,228	25,728	824,500	602,958	138,070	74,795	8,268	409
Loans and advances to customers	11,879,659	290,547	11,589,112	4,288,141	2,745,846	3,300,120	959,431	295,574
Held to maturity investments	759,954	19,828	740,126	52,987	-	29,205	348,188	309,746
Fair value changes of the hedged items in portfolio hedge of interest rate risk	301	301	-	-	-	-	-	-
Pledged assets	20,593	-	20,593	-	-	9,987	10,606	-
Other financial assets	52,278	52,278	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS	16,980,271	1,012,275	15,967,996	5,783,833	3,343,519	4,125,222	1,830,418	885,004
FINANCIAL LIABILITIES								
Trading liabilities	91,789	-	91,789	91,789	-	-	-	-
Derivatives - hedge accounting	28,107	28,107	-	-	-	-	-	-
Deposits from banks	227,011	38,725	188,286	163,119	20,603	1,101	3,463	-
Borrowings from banks	2,924,873	10,923	2,913,950	764,033	1,119,757	959,872	52,747	17,541
Due to customers	10,386,968	145,627	10,241,341	5,428,946	1,268,409	2,516,473	1,011,704	15,809
Borrowings from other customers	196,630	309	196,321	1,276	29,171	73,912	60,124	31,838
Debt securities in issue	1,803,962	25,810	1,778,152	23,909	96,272	37,880	1,580,913	39,178
Subordinated liabilities	901,461	7,720	893,741	335,687	439,146	4,954	53,176	60,778
Financial liabilities associated with transferred assets	20,669	20,669	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,134	1,134	-	-	-	-	-	-
Other financial liabilities	71,272	71,272	-	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	16,653,876	350,296	16,303,580	6,808,759	2,973,358	3,594,192	2,762,127	165,144
TOTAL INTEREST REPRICING GAP				(1,024,926)	370,161	531,030	(931,709)	719,860

Sensitivity analysis for interest rate risk

31.12.2011	NLB				NLB Group			
	Effects on income statement		Effects on other comprehensive income		Effects on income statement		Effects on other comprehensive income	
	1%	-1%	1%	-1%	1%	-1%	1%	-1%
Financial assets								
Loans	60,875	(60,875)	-	-	78,500	(78,500)	-	-
Securities	1,838	(1,838)	(27,179)	27,179	3,172	(3,172)	(27,346)	27,346
Other financial assets	3	(3)	-	-	45	(45)	-	-
TOTAL FINANCIAL ASSETS	62,716	(62,716)	(27,179)	27,179	81,717	(81,717)	(27,346)	27,346
Financial liabilities								
Borrowings, deposits, debt securities in issue	(38,053)	38,053	-	-	(53,090)	53,090	-	-
Other financial liabilities	(397)	397	-	-	(435)	435	-	-
TOTAL FINANCIAL LIABILITIES	(38,450)	38,450	-	-	(53,525)	53,525	-	-
Effects on comprehensive income	24,266	(24,266)	(27,179)	27,179	28,192	(28,192)	(27,346)	27,346
31.12.2010								
31.12.2010	NLB				NLB Group			
	Effects on income statement		Effects on other comprehensive income		Effects on income statement		Effects on other comprehensive income	
	1%	-1%	1%	-1%	1%	-1%	1%	-1%
Financial assets								
Loans	64,791	(64,791)	-	-	82,514	(82,514)	-	-
Securities	3,008	(3,008)	(18,533)	18,533	5,146	(5,146)	(18,728)	18,728
Other financial assets	3	(3)	-	-	60	(60)	-	-
TOTAL FINANCIAL ASSETS	67,802	(67,802)	(18,533)	18,533	87,720	(87,720)	(18,728)	18,728
Financial liabilities								
Borrowings, deposits, debt securities in issue	(34,619)	34,619	-	-	(54,308)	54,308	-	-
Other financial liabilities	(473)	473	-	-	(517)	517	-	-
TOTAL FINANCIAL LIABILITIES	(35,092)	35,092	-	-	(54,825)	54,825	-	-
Effects on comprehensive income	32,710	(32,710)	(18,533)	18,533	32,895	(32,895)	(18,728)	18,728

e) Liquidity risk

Liquidity risk is monitored and managed in the NLB Group in accordance with the relevant policies and strategies, which set out rules and a hierarchy of responsibility. Standard liquidity risk monitoring and management guidelines were implemented at NLB Group companies in accordance with the NLB Group Liquidity Risk Management Strategy. Liquidity risk management is decentralized, with each company ensuring its own liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. A standardized reporting system functions within the NLB Group and ensures adequate control over the provision of operational and structural liquidity at all NLB Group companies.

The NLB Group places special emphasis on ensuring an appropriate level of long-term or structural liquidity in the current conditions on the financial markets.

The objectives of liquidity risk monitoring and management in the NLB Group are as follows:

- ensuring a sufficient level of liquid assets to settle all due liabilities;
- minimizing the costs of maintaining liquidity;
- optimizing the balance of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios; and
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances.

Liquidity is managed at three levels in the NLB Group: operational, structural and strategic.

Operational level

Liquidity management at the operational level means managing liquidity for a period of several days or weeks, based on the planning and monitoring of cash flows. Liquidity management at the operational level in the NLB Group is decentralized, meaning each NLB Group company is responsible for its own liquidity position and carries out the following activities:

- planning and monitoring cash flows;
- adopting business decisions;
- monitoring and complying with the liquidity regulations of the central bank; and
- creating and managing a portfolio of secondary liquidity reserves.

As the parent bank, NLB regularly monitors and provides liquidity to its subsidiaries, as required.

Structural level

Liquidity management at the structural level means managing liquidity over a longer time frame, and includes the following activities:

- defining structural liquidity indicators, and the regular calculation and monitoring thereof;
- defining optimal values or thresholds for individual selected structural liquidity indicators;
- monitoring trends in the selected structural liquidity ratios;
- preparing analyses and proposals for changes in the structure of the balance sheet that affect the liquidity position and liquidity risk; and
- preparing static plans of liquidity gaps.

The objective of liquidity management at the structural level is to achieve a balance sheet structure that ensures the NLB Group's long-term liquidity based on the criteria of maturity matching, the forms and concentration of sources of funding, and the realization and rating of investments.

Strategic level

NLB Group companies perform the following activities in the context of liquidity management at the strategic level:

- preparing dynamic simulations of liquidity gaps;
- monitoring liquidity gaps for each maturity bucket, preparing analyses and proposals for changes in the structure of a bank's statement of financial position that affect the bank's liquidity situation;
- preparing liquidity management stress test scenarios; and
- defining liquidity reserves and the required scope thereof.

The NLB Group regularly examines liquidity risk management principles, methods, instruments and opportunities with aim of auditing the adequacy of liquidity management methods in different circumstances. NLB Group companies calculate liquidity gaps in maturity buckets monthly on the basis of cash flows from asset and liability items from the statement of financial position and from some specific off-balance sheet items. When preparing liquidity management stress test scenarios in exceptional circumstances, NLB considers several factors that may affect the liquidity situation at an individual company in stress situations (e.g. internal and external factors or a combination of both), and several levels of critical circumstances, taking into account the extent and period of criticality. For each foreseen stress test scenario and each level of critical circumstances, NLB Group companies prepare a cash flow plan that reflects the possible reactions of clients and business partners, and the measures taken by a NLB Group company to ensure an adequate level of necessary liquidity. In addition, the NLB Group verifies the accuracy of applied assumptions (so-called "back-testing").

On the basis of liquidity management stress test scenarios, the NLB Group has defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognizing problems, searching for solutions and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of the NLB Group's liquidity and protects the commercial interests of clients and shareholders.

In crisis conditions, the NLB Group also maintains a sufficient level of high-quality available liquidity reserves, with which it can cover unexpected cash outflows in exceptional circumstances. Liquidity reserves comprise primary (e.g. cash, settlement account at the central bank, sight deposits and short-term deposits at banks) and secondary liquidity reserves (e.g. debt securities and loans eligible as collateral for Eurosystem claims). The structure is shown in table below.

Structural liquidity reserves for NLB and NLB Group

	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Primary	667	372	1,470	1,434
Cash	86	93	165	166
Settlement account at central banks	113	102	543	603
Sight deposits and short-term deposits at banks	468	178	762	665
Secondary (market value)	3,123	3,508	3,623	3,923
Securities in the banking book	2,375	2,708	2,834	3,066
Securities in the trading book	48	16	49	16
Loans	700	785	740	841
Shares	175	250	177	233
TOTAL	3,965	4,130	5,270	5,590

Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows, determined on the basis of spot rates at the end of the reporting period.

31.12.2011

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FINANCIAL LIABILITIES						
Deposits from central banks	-	-	-	250,062	-	250,062
Financial liabilities designated at fair value through profit or loss	-	-	-	2,074	-	2,074
Deposits from banks	111,804	1,553	5,622	204	-	119,183
Borrowings from banks	7,981	104,536	268,378	1,039,840	508,767	1,929,502
Due to customers	4,177,539	909,290	1,623,921	962,344	20,041	7,693,135
Borrowings from other customers	1	397	604	35,294	-	36,296
Debt securities in issue	254	220	1,151,705	115,714	-	1,267,893
Subordinated liabilities	4,060	2,170	137,570	426,287	264,173	834,260
Other financial liabilities	29,796	2,707	-	-	-	32,503
TOTAL FINANCIAL LIABILITIES	4,331,435	1,020,873	3,187,800	2,831,819	792,981	12,164,908
Credit related commitments	623,716	248,226	807,713	388,808	460,450	2,528,913
TOTAL FINANCIAL ASSETS	2,674,169	1,085,768	2,285,172	4,514,460	2,785,427	13,344,996

31.12.2010

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FINANCIAL LIABILITIES						
Deposits from banks	157,191	21,575	518	143	-	179,427
Borrowings from banks	5,431	53,157	738,965	844,229	526,878	2,168,660
Due to customers	4,117,689	964,125	1,716,652	963,248	19,123	7,780,837
Borrowings from other customers	2	-	158	4,677	10,077	14,914
Debt securities in issue	196	44,051	87,970	1,722,962	40,628	1,895,807
Subordinated liabilities	2,858	7,701	117,715	473,363	338,001	939,638
Financial liabilities associated to transferred assets	20,669	-	-	-	-	20,669
Other financial liabilities	51,328	2,977	27	-	-	54,332
TOTAL FINANCIAL LIABILITIES	4,355,364	1,093,586	2,662,005	4,008,622	934,707	13,054,284
Credit related commitments	676,104	358,724	1,062,270	556,205	542,365	3,195,668
TOTAL FINANCIAL ASSETS	2,195,629	1,338,327	3,117,036	4,626,657	2,841,098	14,118,747

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to 1 month, it is necessary to take into account the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 50% to demand deposits when ensuring compliance with the central bank regulations concerning the calculation of the liquidity position. To ensure NLB's and the NLB Group's liquidity and based on its approach to risk, the NLB Group compiled in previous years a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

31.12.2011

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FINANCIAL LIABILITIES						
Deposits from central banks	20,106	-	-	291,327	-	311,433
Financial liabilities designated at fair value through profit or loss	-	-	-	2,074	-	2,074
Deposits from banks	81,339	50,215	9,015	584	-	141,153
Borrowings from banks	78,546	154,634	449,747	1,170,275	529,264	2,382,466
Due to customers	5,425,952	1,230,020	2,398,486	1,302,081	49,547	10,406,086
Borrowings from other customers	7,166	9,280	57,196	129,919	39,431	242,992
Debt securities in issue	367	220	1,151,752	114,456	-	1,266,795
Subordinated liabilities	4,155	14,128	138,402	437,563	284,229	878,477
Other financial liabilities	41,192	4,549	1,705	-	-	47,446
TOTAL FINANCIAL LIABILITIES	5,658,823	1,463,046	4,206,303	3,448,279	902,471	15,678,922
Credit related commitments	721,155	334,154	839,720	454,121	251,218	2,600,368
TOTAL FINANCIAL ASSETS	4,146,286	1,395,064	2,897,318	5,693,814	3,246,705	17,379,187

31.12.2010

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FINANCIAL LIABILITIES						
Deposits from banks	202,873	21,608	6,964	5,668	43	237,156
Borrowings from banks	198,397	258,613	981,306	1,087,807	555,759	3,081,882
Due to customers	5,333,619	1,320,772	2,584,608	1,315,443	35,919	10,590,361
Borrowings from other customers	6,238	9,354	27,457	136,006	46,690	225,745
Debt securities in issue	290	44,058	98,088	1,723,439	40,628	1,906,503
Subordinated liabilities	2,928	8,429	138,587	498,835	353,514	1,002,293
Financial liabilities associated to transferred assets	20,669	-	-	-	-	20,669
Other financial liabilities	64,119	5,030	2,123	-	-	71,272
TOTAL FINANCIAL LIABILITIES	5,829,133	1,667,864	3,839,133	4,767,198	1,032,553	17,135,881
Credit related commitments	726,230	382,085	1,009,392	615,489	253,390	2,986,586
TOTAL FINANCIAL ASSETS	3,592,878	1,743,957	3,842,426	6,160,075	3,327,747	18,667,083

Subordinated liabilities with no contractual maturity are included in maturity buckets based on when the NLB expects their redemption.

An analysis of the statement of financial position by residual maturity based on discounted cash flows is presented in table below.

31.12.2011

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash and cash balances with central banks	304,975	-	-	-	-	304,975
Trading assets	89,875	33,403	123	12,219	43,878	179,498
Financial assets designated at fair value through profit or loss	-	-	-	-	2,074	2,074
Available for sale financial assets	96,041	226,432	260,619	505,424	337,054	1,425,570
Derivatives - hedge accounting	37,717	-	-	-	-	37,717
Loans and advances to banks	273,486	31,161	121,306	138,231	30,437	594,621
Loans and advances to customers	1,922,885	724,808	1,662,344	2,580,846	1,570,877	8,461,760
Held to maturity investments	28,629	23,810	32,745	595,746	387,061	1,067,991
Fair value changes of hedged in portfolio hedge of interest rate risk	-	-	-	141	462	603
Non-current assets and disposal group as held for sale	-	-	4,689	-	-	4,689
Property and equipment	-	-	-	21,396	125,996	147,392
Investment property	-	-	-	1,687	-	1,687
Intangible assets	-	-	-	10,364	52,076	62,440
Investments in subsidiaries, associates and joint ventures	-	-	-	-	547,978	547,978
Deferred income tax assets	-	-	44,056	59,722	-	103,778
Other assets	35,296	21	1,905	13	10	37,245
TOTAL ASSETS	2,788,904	1,039,635	2,127,787	3,925,789	3,097,903	12,980,018
Deposits from central banks	-	-	-	250,062	-	250,062
Trading liabilities	93,723	-	-	-	-	93,723
Financial liabilities designated at fair value through profit or loss	-	-	-	2,074	-	2,074
Derivatives - hedge accounting	43,139	-	-	-	-	43,139
Deposits from banks	111,792	1,546	5,450	200	-	118,988
Borrowings from banks	7,347	102,643	234,143	953,506	473,237	1,770,876
Due to customers	4,172,766	893,460	1,568,853	906,143	18,721	7,559,943
Borrowings from other customers	1	290	48	32,599	-	32,938
Debt securities in issue	231	10	1,129,865	104,881	-	1,234,987
Subordinated liabilities	1,441	557	124,130	366,307	258,458	750,893
Fair value changes of the hedged items in hedge of interest rate risk	580	-	-	-	-	580
Provisions	85	80	18,569	89,218	-	107,952
Current income tax liabilities	-	-	507	-	-	507
Other liabilities	52,250	2,738	287	1,190	-	56,465
TOTAL LIABILITIES	4,483,355	1,001,324	3,081,852	2,706,180	750,416	12,023,127
Contingent liabilities	623,716	248,226	807,713	388,808	460,450	2,528,913

31.12.2010

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash and cash balances with central banks	204,429	-	-	-	-	204,429
Trading assets	77,477	30	4,525	7,802	65,405	155,239
Financial assets designated at fair value through profit or loss	-	-	-	-	23,781	23,781
Available for sale financial assets	171,896	232,727	611,137	526,091	443,330	1,985,181
Derivatives - hedge accounting	35,584	-	-	-	-	35,584
Loans and advances to banks	242,483	50,980	132,255	127,296	17,214	570,228
Loans and advances to customers	1,459,401	995,399	2,107,547	2,971,133	1,666,329	9,199,809
Held to maturity investments	59,665	7,091	35,264	348,103	309,746	759,869
Fair value changes of hedged in portfolio hedge of interest rate risk	-	21	10	38	232	301
Non-current assets and disposal group as held for sale	-	-	22,965	-	-	22,965
Pledged assets	-	-	9,987	10,606	-	20,593
Property and equipment	-	-	-	65,363	91,730	157,093
Investment property	-	-	-	1,637	-	1,637
Intangible assets	-	-	-	12,695	60,799	73,494
Investments in subsidiaries, associates and joint ventures	-	-	-	-	533,089	533,089
Current income tax assets	-	-	675	-	-	675
Deferred income tax assets	-	-	23,891	19,950	-	43,841
Other assets	42,020	118	254	10	9	42,411
TOTAL ASSETS	2,292,955	1,286,366	2,948,510	4,090,724	3,211,664	13,830,219
Trading liabilities	90,873	-	-	-	-	90,873
Derivatives - hedge accounting	28,107	-	-	-	-	28,107
Deposits from banks	157,188	21,552	516	140	-	179,396
Borrowings from banks	5,245	50,790	712,747	784,668	498,307	2,051,757
Due to customers	4,114,198	947,014	1,667,433	917,749	17,276	7,663,670
Borrowings from other customers	2	-	36	4,048	10,000	14,086
Debt securities in issue	152	43,486	52,192	1,658,512	39,178	1,793,520
Subordinated liabilities	2,188	5,837	104,150	410,761	325,477	848,413
Financial liabilities associated with transferred assets	20,669	-	-	-	-	20,669
Fair value changes of the hedged items in hedge of interest rate risk	-	6	568	560	-	1,134
Provisions	-	-	18,646	52,403	-	71,049
Current income tax liabilities	-	-	880	-	-	880
Other liabilities	74,934	3,316	1,749	418	-	80,417
TOTAL LIABILITIES	4,493,556	1,072,001	2,558,917	3,829,259	890,238	12,843,971
Contingent liabilities	676,104	358,724	1,062,270	556,205	542,365	3,195,668

31.12.2011

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash and cash balances with central banks	833,945	-	-	-	-	833,945
Trading assets	90,077	33,403	123	12,219	43,878	179,700
Financial assets designated at fair value through profit or loss	-	-	-	-	3,661	3,661
Available for sale financial assets	302,077	369,336	310,793	565,896	339,941	1,888,043
Derivatives - hedge accounting	37,717	-	-	-	-	37,717
Loans and advances to banks	539,893	85,551	108,612	43,719	5,979	783,754
Loans and advances to customers	2,326,616	801,491	2,131,333	3,563,570	1,925,674	10,748,684
Held to maturity investments	28,629	23,810	32,745	595,746	387,061	1,067,991
Fair value changes of hedged in portfolio hedge of interest rate risk	-	-	-	141	462	603
Non-current assets and disposal group as held for sale	-	-	5,787	-	-	5,787
Property and equipment	-	-	-	42,312	286,088	328,400
Investment property	-	-	-	1,884	56,873	58,757
Intangible assets	-	-	-	11,869	118,459	130,328
Investments in associates and joint ventures	-	-	-	-	105,322	105,322
Current income tax assets	195	107	3,003	-	-	3,305
Deferred income tax assets	200	342	50,280	49,926	4,119	104,867
Other assets	92,235	6,255	37,921	24,706	2,811	163,928
TOTAL ASSETS	4,251,584	1,320,295	2,680,597	4,911,988	3,280,328	16,444,792
Deposits from central banks	20,000	-	-	290,097	-	310,097
Trading liabilities	94,126	-	-	-	-	94,126
Financial liabilities designated at fair value through profit or loss	-	-	-	2,074	-	2,074
Derivatives - hedge accounting	43,139	-	-	-	-	43,139
Deposits from banks	81,328	50,183	8,778	580	-	140,869
Borrowings from banks	71,638	150,072	407,857	1,071,669	492,344	2,193,580
Due to customers	5,403,422	1,205,716	2,318,352	122,671	43,535	9,093,696
Borrowings from other customers	1,407	7,480	50,061	120,548	39,408	218,904
Debt securities in issue	231	10	1,129,637	103,056	-	1,232,934
Subordinated liabilities	1,449	11,805	124,197	370,807	275,308	783,566
Fair value changes of the hedged items in hedge of interest rate risk	580	-	-	-	-	580
Provisions	1,754	3,798	30,639	80,002	15,508	131,701
Current income tax liabilities	321	-	910	-	-	1,231
Deferred income tax liabilities	-	-	48	635	-	683
Other liabilities	81,572	4,580	7,917	5,758	92	99,919
TOTAL LIABILITIES	5,800,967	1,433,644	4,078,396	2,167,897	866,195	14,347,099
Contingent liabilities	721,155	334,154	839,720	454,121	251,218	2,600,368

31.12.2010

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash and cash balances with central banks	764,895	-	-	-	-	764,895
Trading assets	78,415	30	4,590	8,071	66,585	157,691
Financial assets designated at fair value through profit or loss	-	-	-	-	25,674	25,674
Available for sale financial assets	258,218	324,798	781,218	621,767	447,413	2,433,414
Derivatives - hedge accounting	35,584	-	-	-	-	35,584
Loans and advances to banks	580,588	93,272	87,058	84,631	4,679	850,228
Loans and advances to customers	1,815,854	1,222,927	2,579,752	4,197,107	2,064,019	11,879,659
Held to maturity investments	59,665	7,091	35,264	348,188	309,746	759,954
Fair value changes of hedged in portfolio hedge of interest rate risk	-	21	10	38	232	301
Non-current assets and disposal group as held for sale	9,552	283	114,073	-	-	123,908
Pledged assets	-	-	9,987	10,606	-	20,593
Property and equipment	-	-	-	89,973	257,022	346,995
Investment property	-	-	-	2,033	49,672	51,705
Intangible assets	-	-	-	14,413	132,076	146,489
Investments in associates and joint ventures	-	-	-	-	111,760	111,760
Current income tax assets	-	-	4,112	-	-	4,112
Deferred income tax assets	-	-	31,305	29,407	33	60,745
Other assets	97,197	8,266	7,245	1,271	266	114,245
TOTAL ASSETS	3,699,968	1,656,688	3,654,614	5,407,505	3,469,177	17,887,952
Trading liabilities	91,789	-	-	-	-	91,789
Derivatives - hedge accounting	28,107	-	-	-	-	28,107
Deposits from banks	201,915	20,474	1,116	3,463	43	227,011
Borrowings from banks	196,398	253,233	941,844	1,008,945	524,453	2,924,873
Due to customers	5,317,954	1,294,753	2,500,467	1,243,571	30,223	10,386,968
Borrowings from other customers	1,014	7,260	20,611	124,129	43,616	196,630
Debt securities in issue	239	43,486	62,082	1,658,977	39,178	1,803,962
Subordinated liabilities	2,188	6,017	124,200	431,443	337,613	901,461
Financial liabilities associated with transferred assets	20,669	-	-	-	-	20,669
Fair value changes of the hedged items in hedge of interest rate risk	-	6	568	560	-	1,134
Liabilities of disposal group classified as held for sale	-	-	43,264	-	-	43,264
Provisions	-	-	25,095	58,818	18,956	102,869
Current income tax liabilities	-	-	1,697	-	-	1,697
Deferred income tax liabilities	-	-	281	1,302	311	1,894
Other liabilities	105,966	5,530	9,464	2,787	254	124,001
TOTAL LIABILITIES	5,966,239	1,630,759	3,730,689	4,533,995	994,647	16,856,329
Contingent liabilities	726,230	382,085	1,009,392	615,489	253,390	2,986,586

Derivative cash flows

The NLB Group's derivatives are settled on a gross basis, except for certain interest rate swaps. The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows, prepared on the basis of spot rates on the reporting date.

31.12.2011

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FOREIGN EXCHANGE DERIVATIVES						
- Forwards						
- Outflow	(50,071)	(41,646)	(41,838)	(692)	-	(134,247)
- Inflow	50,607	41,214	41,910	694	-	134,425
- Swaps						
- Outflow	(80,826)	(167,902)	(1,600,410)	(1,976,397)	(644,677)	(4,470,212)
- Inflow	83,559	170,940	1,594,064	1,974,936	644,722	4,468,221
- Options						
- Outflow	-	(14,149)	(28,070)	(80,866)	(18,177)	(141,262)
- Inflow	-	14,149	28,070	80,866	18,177	141,262
- Futures						
- Outflow	-	(9,246)	-	-	-	(9,246)
- Inflow	-	9,245	-	-	-	9,245
INTEREST RATE DERIVATIVES						
- Interest rate swaps and cross-currency swaps						
- Outflow	(6,859)	(9,858)	(121,241)	(160,736)	(95,171)	(393,865)
- Inflow	2,366	6,359	132,695	154,265	81,596	377,281
- Forwards						
- Outflow	-	-	-	-	-	-
- Inflow	7	-	-	-	-	7
- Caps and floors						
- Outflow	(16)	(19)	(194)	(327)	-	(556)
- Inflow	18	21	196	329	-	564
TOTAL OUTFLOW	(137,772)	(242,820)	(1,791,753)	(2,219,018)	(758,025)	(5,149,388)
TOTAL INFLOW	136,557	241,928	1,796,935	2,211,090	744,495	5,131,005

31.12.2010

NLB	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FOREIGN EXCHANGE DERIVATIVES						
- Forwards						
- Outflow	(20,591)	(12,575)	(24,354)	(92)	-	(57,612)
- Inflow	20,373	12,630	24,126	89	-	57,218
- Swaps						
- Outflow	(83,350)	(85,331)	(105,111)	(90)	-	(273,882)
- Inflow	80,439	82,516	103,626	92	-	266,673
- Options						
- Outflow	(5,859)	(18,826)	(59,428)	(66,326)	(18,334)	(168,773)
- Inflow	5,859	18,826	59,428	66,326	18,334	168,773
- Futures						
- Outflow	-	(31,604)	-	-	-	(31,604)
- Inflow	-	31,631	-	-	-	31,631
INTEREST RATE DERIVATIVES						
- Interest rate swaps and cross-currency swaps						
- Outflow	(7,381)	(12,521)	(66,230)	(259,156)	(113,247)	(458,535)
- Inflow	3,010	9,749	81,352	260,919	112,437	467,467
- Forwards						
- Outflow	-	-	-	-	-	-
- Inflow	18	-	-	-	-	18
- Caps and floors						
- Outflow	(45)	(39)	(395)	(451)	(3)	(933)
- Inflow	48	42	403	458	3	954
TOTAL OUTFLOW	(117,226)	(160,896)	(255,518)	(326,115)	(131,584)	(991,339)
TOTAL INFLOW	109,747	155,394	268,935	327,884	130,774	992,734

31.12.2011

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FOREIGN EXCHANGE DERIVATIVES						
- Forwards						
- Outflow	(57,472)	(41,646)	(41,838)	(692)	-	(141,648)
- Inflow	57,973	41,214	41,910	694	-	141,791
- Swaps						
- Outflow	(81,699)	(167,902)	(1,600,410)	(1,976,397)	(640,121)	(4,466,529)
- Inflow	84,444	170,940	1,594,064	1,974,936	640,166	4,464,550
- Options						
- Outflow	-	(14,149)	(28,070)	(80,866)	(18,177)	(141,262)
- Inflow	-	14,149	28,070	80,866	18,177	141,262
- Futures						
- Outflow	-	(9,246)	-	-	-	(9,246)
- Inflow	-	9,245	-	-	-	9,245
INTEREST RATE DERIVATIVES						
- Interest rate swaps and cross-currency swaps						
- Outflow	(6,855)	(9,829)	(121,213)	(160,801)	(95,026)	(393,724)
- Inflow	2,352	6,227	132,285	153,836	81,090	375,790
- Forwards						
- Outflow	-	-	-	-	-	-
- Inflow	7	-	-	-	-	7
- Caps and floors						
- Outflow	(16)	(19)	(194)	(327)	-	(556)
- Inflow	18	21	196	329	-	564
TOTAL OUTFLOW	(146,042)	(242,791)	(1,791,725)	(2,219,083)	(753,324)	(5,152,965)
TOTAL INFLOW	144,794	241,796	1,796,525	2,210,661	739,433	5,133,209

31.12.2010

NLB Group	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
FOREIGN EXCHANGE DERIVATIVES						
- Forwards						
- Outflow	(34,460)	(12,575)	(24,354)	(92)	-	(71,481)
- Inflow	34,267	12,630	24,126	89	-	71,112
- Swaps						
- Outflow	(83,383)	(85,331)	(105,111)	(90)	-	(273,915)
- Inflow	80,472	82,516	103,627	92	-	266,707
- Options						
- Outflow	(5,859)	(18,826)	(59,428)	(66,326)	(18,334)	(168,773)
- Inflow	5,859	18,826	59,428	66,326	18,334	168,773
- Futures						
- Outflow	-	(31,604)	-	-	-	(31,604)
- Inflow	-	31,631	-	-	-	31,631
INTEREST RATE DERIVATIVES						
- Interest rate swaps and cross-currency swaps						
- Outflow	(7,384)	(12,483)	(66,057)	(258,384)	(112,816)	(457,124)
- Inflow	3,000	9,499	80,683	259,301	111,817	464,300
- Forwards						
- Outflow	-	-	-	-	-	-
- Inflow	18	-	-	-	-	18
- Caps and floors						
- Outflow	(45)	(40)	(395)	(451)	(3)	(934)
- Inflow	48	42	403	458	3	954
TOTAL OUTFLOW	(131,131)	(160,859)	(255,345)	(325,343)	(131,153)	(1,003,831)
TOTAL INFLOW	123,664	155,144	268,267	326,266	130,154	1,003,495

Managing NLB's secondary liquidity reserves

The NLB Group has available primary and secondary liquidity reserves to cover liabilities. Primary liquidity reserves must be available very soon following the realization of a stress test scenario (immediately, i.e. within one week). This is the ability to generate and secure rapidly realizable and highly liquid assets in the short term. The majority of primary liquidity reserves is represented by cash, funds on settlement accounts at central banks and sight and short-term funds at other banks. NLB's secondary liquidity reserves are of exceptional importance in meeting liquidity needs and complying with regulations governing this area. These mainly comprise prime debt securities issued by EU countries and eligible for ECB transactions, while one third of secondary liquidity reserves are accounted for by loans that meet ECB eligibility criteria in full. ECB eligible loans are loans secured by a government guarantee and loans to government agencies.

NLB considers high-quality securities and ECB-eligible loans, on the basis of which it is possible to raise liquid assets on the market or at the central bank, as secondary liquidity reserves. The extent of secondary liquidity reserves depends on the liquidity needs of NLB and the NLB Group.

At the end of 2011, the balance of ECB-eligible loans amounted to EUR 700 million (December 31, 2010: EUR 785 million). The total balance of secondary liquidity reserves as at December 31, 2011 amounted to EUR 3,123 million (December 31, 2010: EUR 3,508 million). ECB eligible loans include government-guaranteed loans and loans to government agencies.

Debt securities are classified into the trading or banking book depending on the purpose of their acquisition and on the intended manner of disposal. Securities that the NLB Group acquires principally for generating profits as the difference between purchase price and selling price are classified in the trading book. Securities in the trading book are always classified in the financial statements as financial assets held for trading.

The NLB Group also gives a great deal of attention to the monitoring and compliance of structural liquidity indicators, which indicate the appropriate maturity and structure of sources of funding in connection with the credit portfolio. A more detailed overview of the NLB Group's structural liquidity is facilitated by liquidity gaps and their short-, medium- and long-term projections of relevant cash flows. The NLB Group's sources of funding are appropriately diversified in the current conditions, and ensure an appropriate proportion of long-term sources of funding with respect to its credit portfolio.

The debt securities portfolio of the banking book is also used simultaneously for providing secondary liquidity, stabilizing the interest margin and managing NLB's interest rate risk. Securities in the banking book are classified as "available for sale" or "held to maturity". When managing the portfolio, NLB uses conservative principles, particularly with respect to the structure of the portfolio in terms of issuers' ratings and the maturity of portfolio. The framework for managing the securities of the banking book is the policy for managing debt securities in the banking book, which clearly defines the objectives and characteristics of the associated portfolio.

The basic provisions of the policy for managing debt securities in the banking book are as follows:

- the securities with a fixed interest rate must account for at least 75% of the total portfolio in order to stabilize NLB's interest margin;
- the majority of the securities must comprise securities that can be pledged with the ECB, i.e. are on the list of eligible financial assets at the ECB; a maximum of EUR 250 million in securities can be outside aforementioned list;
- modified portfolio duration is calculated semi annually and may not exceed 3 years;
- a maximum of 40% of the total value of the portfolio can be classified as "held to maturity";
- there may be no more than EUR 600 million of bank, corporate or structured securities; and
- there may be no more than EUR 100 million of structured securities.

As at December 31, 2011, the balance of debt securities in the banking book of NLB was EUR 2.386 million and in the banking book of NLB Group EUR 2.857 million. Of these, 82.82% were government securities (December 31, 2010: 80.4%), 8.22% were government-guaranteed bank bonds (December 31, 2010: 12.6%), 1.85% multilateral institution bonds (December 31, 2010: 0.7%), 1.15% covered bonds (December 31, 2010: 0%) and 5.95% bank and corporate securities (December 31, 2010: 6.3%). In comparison to 2010, there have been in 2011 decrease in exposure to PIIGS countries (Portugal, Italy, Ireland, Greece and Spain) for EUR 148.5 million on nominal value in amount of EUR 21.5 million. In second half year of 2011 we have in accordance with Private Sector Involvement proposal of Institute of International Finance gradually impair Greek government bonds, primarily on 79% of price and secondary with new proposal of Private Sector Involvement on 50% of price.

Structure of government securities in banking book

		in million EUR			
31.12.2011		NLB		NLB Group	
Country	Fitch	Carrying value	Fair value	Carrying value	Fair value
Austria	AAA	172	171	178	177
Belgium	AA+	140	136	152	149
Czech	A+	2	2	2	2
Finland	AAA	26	25	26	25
France	AAA	172	174	175	177
Germany	AAA	196	202	199	205
Greece	CCC	2	1	2	1
Ireland	BBB+	10	9	10	9
Italy	A+	10	9	10	9
Luxemburg	AAA	5	5	5	5
Netherland	AAA	74	76	83	85
Poland	A-	8	7	8	7
Slovakia	A+	19	19	19	19
Slovenia	A	1,208	1,134	1,237	1,163
Sweden	AAA	8	8	8	8
Serbia	BB-	-	-	86	85
Bosnia and Herzegovina	-	-	-	8	8
Montenegro	-	-	-	15	15
Macedonia	-	-	-	191	191
TOTAL		2,049	1,979	2,412	2,340

7.3. Operational risk management

For quality operational risk management, the NLB Group established a system to collect data regarding loss events, and to identify and assess operational risks. As the highest authority in the area of operational risk management, NLB named an Operational Risk Committee to serve as the decision-making body of NLB's Management Board. The relevant committees for (operational) risk were also named at other NLB Group banks. The management board serves in this role at other subsidiaries. The task of the aforementioned bodies is to discuss the most significant operational risks, and to monitor and support the effective management of operational risks at an individual company.

The upper tolerance limit to operational risk permitted by an individual bank or leasing entity in its operations, has been defined. A net loss exceeding that limit must be treated individually and additional measures taken, as necessary, to prevent the same or similar loss events. The relevant provisions are created for loss events, the material consequences of which are appropriately assessed.

Future losses are estimated by assessing identified operational risks. An operational risk profile is drafted once a year on the basis of these assessments. The most significant risks are managed actively.

NLB Group members have adopted relevant documents that are in line with NLB standards. These are updated periodically in line with the development of operational risk management. Thus, NLB's operational risk management model was implemented throughout the entire NLB Group. NLB strives to continuously update the aforementioned model, which is also supported by the development of the relevant software support.

Capital requirements for operational risk are calculated using the standardized approach at NLB and using the basic indicator approach at the NLB Group level.

7.4. Information regarding the quality of debt securities

The portfolio of debt securities in the banking book is intended to provide secondary liquidity and manage the NLB Group's interest rate risk. When managing the portfolio, the Group uses conservative principles, particularly with respect to issuers' ratings and the maturity of the portfolio.

Structure of the banking book according to Fitch ratings:

Rating	NLB		NLB Group	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	in %	in %	in %	in %
Long-term Fitch				
AAA	34.4	31.8	29.6	27.5
AA	56.9	58.6	49.0	51.0
A	3.8	3.1	4.4	5.1
BBB	0.4	1.3	1.2	3.4
BB	-	-	9.2	7.7
B	-	-	0.2	-
Unrated	4.4	3.0	6.3	3.4
Short-term Fitch				
F	0.1	2.2	0.1	1.9
TOTAL	100.0	100.0	100.0	100.0

Most of securities with no external rating are high quality treasury bills (Germany, Netherland, France, Belgium and other European countries) and Slovenian securities with the guarantee of the Republic of Slovenia. Relatively small part presents bank and corporate securities.

The value of bonds in NLB's trading book amounted to EUR 13 million as at December 31, 2011 (December 31, 2010: EUR 12.6 million), while in the NLB Group amounted to EUR 13.8 million (December 31, 2010: EUR 15.2 million). NLB also holds certificates of deposits from domestic banks that as at December 31, 2011 amounted to EUR 2 million (December 31, 2010: EUR 0.4 million). In 2011 NLB has mostly traded with AA and A rated commercial bills; as at December 31, 2011 the trading book of commercial bills amounted to EUR 33 million (December 31, 2010: nil).

Structure of the trading book according to internal ratings:

NLB and NLB Group	31.12.2011	31.12.2010
Rating	in %	in %
AA	69.2	12.1
A	19.8	44.9
B	11.0	43.0
TOTAL	100.0	100.0

7.5. Fair value of financial instruments

	NLB				NLB Group			
	31.12.2011		31.12.2010		31.12.2011		31.12.2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loans and advances to banks	594,621	623,979	570,228	584,696	783,754	786,600	850,228	851,140
Loans and advances to customers	8,461,760	8,366,597	9,199,809	9,089,604	10,748,684	10,658,576	11,879,659	11,845,935
Loans to government	31,135	31,797	44,636	42,917	137,586	136,684	193,524	191,410
Loans to financial organizations	1,124,936	1,164,885	1,151,080	1,179,205	380,371	386,826	401,563	408,958
Loans to individuals	1,969,061	2,037,474	2,023,896	2,048,117	2,799,300	2,887,609	2,833,421	2,906,171
<i>Granted overdrafts</i>	<i>184,698</i>	<i>187,784</i>	<i>184,572</i>	<i>187,807</i>	<i>210,387</i>	<i>211,468</i>	<i>209,623</i>	<i>210,731</i>
<i>Loans for houses and flats</i>	<i>1,083,357</i>	<i>1,138,941</i>	<i>1,059,651</i>	<i>1,071,996</i>	<i>1,377,602</i>	<i>1,445,544</i>	<i>1,304,430</i>	<i>1,347,483</i>
<i>Consumer loans</i>	<i>646,965</i>	<i>656,734</i>	<i>724,672</i>	<i>733,296</i>	<i>889,243</i>	<i>907,036</i>	<i>929,741</i>	<i>947,171</i>
<i>Other loans</i>	<i>54,041</i>	<i>54,015</i>	<i>55,001</i>	<i>55,018</i>	<i>322,068</i>	<i>323,561</i>	<i>389,627</i>	<i>400,786</i>
Loans to other customers	5,336,628	5,132,441	5,980,197	5,819,365	7,431,427	7,247,457	8,451,151	8,339,396
<i>Loans to large corporate customers</i>	<i>3,185,972</i>	<i>2,996,459</i>	<i>3,458,353</i>	<i>3,293,284</i>	<i>3,633,706</i>	<i>3,449,985</i>	<i>3,935,882</i>	<i>3,773,011</i>
<i>Loans to small and medium size enterprises</i>	<i>2,150,656</i>	<i>2,135,982</i>	<i>2,521,844</i>	<i>2,526,081</i>	<i>3,797,721</i>	<i>3,797,472</i>	<i>4,515,269</i>	<i>4,566,385</i>
Held-to-maturity investments	1,067,991	1,037,641	759,869	767,804	1,067,991	1,037,641	759,954	767,891
Other financial assets	32,744	32,744	38,122	38,122	55,646	55,646	52,278	52,278
Deposits from banks	118,988	119,094	179,396	172,406	140,869	141,663	227,011	227,075
Borrowings from banks*	1,770,876	1,642,114	2,072,426	1,869,148	2,193,580	2,062,645	2,945,542	2,730,580
Due to customers	7,559,943	7,586,916	7,663,670	7,682,061	10,193,696	10,204,875	10,386,968	10,420,137
Borrowings from other customers	32,938	30,477	14,086	11,387	218,904	213,239	196,630	191,806
Debt securities in issue	1,234,987	1,204,459	1,793,520	1,795,070	1,232,934	1,202,556	1,803,962	1,810,531
Subordinated liabilities	750,893	658,628	848,413	747,190	783,566	692,775	901,461	824,248
Other financial liabilities	32,503	32,503	54,332	54,332	47,446	47,446	71,272	71,272

* Borrowings from banks include loans from repurchase agreements that are disclosed separately in the statement of financial position as financial liabilities associated with transferred assets that do not meet derecognition criteria.

Loans and advances to banks

The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers

Loans and advances are net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair value.

Deposits and borrowings

The fair value of sight deposits and overnight deposits is equal to their carrying value. However, their actual value for the NLB Group depends on timing and amounts of cash flows, current market rates and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for the NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Held to maturity investments and issued debt securities

The fair value of held to maturity investments and issued debt securities is based on their quoted market price or value calculated by using a discounted cash flow method and prevailing money market interest rates.

Loan commitments

For credit facilities that are drawn soon after the NLB Group grants the loans (drawn at market rates) and loan commitments to those clients that are not impaired, the fair value is close to zero. For loan commitments to clients, that are impaired, the fair value represents the amount of the created provisions.

Other financial assets and liabilities

The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value, as they relate mainly to short-term receivable and payables.

8. OTHER DISCLOSURES

8.1. Analysis by segment

a) Segments

2011

NLB Group	Corporate banking (Slovenia)	Retail banking (Slovenia)	Financial markets (Slovenia)	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	148,818	236,033	46,098	136,445	72,120	6,859	-	646,373
Net income from external customers	229,041	170,416	(10,925)	141,638	103,500	2,798	-	636,468
Intersegment net income	(80,223)	65,617	57,023	(5,193)	(31,380)	4,061	-	9,905
<i>Net interest income</i>	<i>125,103</i>	<i>130,530</i>	<i>13,878</i>	<i>100,890</i>	<i>46,765</i>	<i>171</i>	-	<i>417,337</i>
<i>Net interest income from external customers</i>	<i>209,106</i>	<i>63,562</i>	<i>(43,145)</i>	<i>105,985</i>	<i>81,828</i>	<i>1</i>	-	<i>417,337</i>
<i>Intersegment net interest income</i>	<i>(84,003)</i>	<i>66,968</i>	<i>57,023</i>	<i>(5,095)</i>	<i>(35,063)</i>	<i>170</i>	-	-
Administrative expenses	(26,184)	(160,573)	(15,334)	(70,107)	(55,157)	(7,234)	-	(334,589)
Depreciation and amortization	(3,663)	(24,638)	(1,969)	(13,597)	(10,597)	(951)	-	(55,415)
Reportable segment profit/(loss) before impairment and provision charge	118,971	50,822	28,795	52,741	6,366	(1,326)	-	256,369
Share of profits of associates and joint ventures	-	-	-	-	-	(2,818)	-	(2,818)
Impairment and provisions charge	(332,827)	12,485	(13,905)	(38,271)	(147,967)	82	-	(520,403)
(Loss)/profit before income tax	(213,856)	63,307	14,890	14,470	(141,601)	(4,062)	-	(266,852)
<i>Non-controlling interests</i>	-	-	-	<i>1,684</i>	<i>(2,569)</i>	-	-	<i>(885)</i>
<i>Owners of the parent</i>	<i>(213,856)</i>	<i>63,307</i>	<i>14,890</i>	<i>12,786</i>	<i>(139,032)</i>	<i>(4,062)</i>	-	<i>(265,967)</i>
Income tax							26,769	26,769
Loss for the year								(240,083)
Reportable segment assets	4,823,188	3,048,772	3,395,993	2,943,592	2,011,523	116,402	-	16,339,470
Investments in associates and joint ventures	-	-	-	-	-	105,322	-	105,322
Reportable segment liabilities	1,693,051	6,226,025	3,621,103	2,526,666	980,304	399,950	-	15,447,099
Additions to non-current assets	1,178	11,906	729	9,974	29,873	558	-	54,218

The groups segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service level. Business activities of NLB are divided into several segments where intersegment transactions present multiple transfer prices. Other NLB Group members are, based on its business activity, included in only one segment.

Description of segments:

- Retail banking in Slovenia represents banking with individuals, commercial banking for small and medium enterprises and sole traders in NLB and assets management – NLB Skladi, Ljubljana;
- Corporate banking in Slovenia represents commercial banking in NLB with medium and large enterprises;
- Financial markets in Slovenia represent all treasury activities, operations with financial institutions and investment banking in NLB;
- Foreign strategic markets represent all business activities from the strategic NLB Group members on strategic markets in the NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo and Macedonia);
- Non-strategic markets and activities represent total activities from the NLB Group members on non-strategic markets in the NLB Group (Croatia, Serbia, Germany, Switzerland and Czech Republic) and all leasing companies. The financial result of this segment include also sold or liquidated (NLB Bank Sofia, Sofia, NLB Factor, Bratislava and NLB Nova Penzija, Beograd) and
- Other activities represent the investments in associates, financial results from non-financial members of the NLB Group (property management, maintenance, catering and tourism services) and other expenses that are not related to reportable segments.

Since NLB Group is primarily a financial group and interest income represents the majority of the NLB Group's income, the main indicators of a segment's efficiency are net profit before provisions and impairments and net profit.

There was no income from transactions with a single external customer that amounted to 10% or more of the NLB Group's income.

2010

NLB Group	Corporate banking (Slovenia)	Retail banking (Slovenia)	Financial markets (Slovenia)	Foreign strategic markets	Non-strategic markets and activities	Other activities	Unallocated	Total
Total net income	159,621	225,042	28,316	133,352	98,310	5,567	-	650,208
Net income from external customers	184,970	183,733	(27,629)	139,750	132,225	1,535	-	614,584
Intersegment net income	(25,349)	41,309	55,945	(6,398)	(33,915)	4,032	-	35,624
<i>Net interest income</i>	<i>136,007</i>	<i>113,950</i>	<i>16,993</i>	<i>95,831</i>	<i>73,154</i>	<i>163</i>	-	<i>436,098</i>
<i>Net interest income from external customers</i>	<i>195,772</i>	<i>71,063</i>	<i>(38,952)</i>	<i>102,504</i>	<i>105,642</i>	<i>69</i>	-	<i>436,098</i>
<i>Intersegment net interest income</i>	<i>(59,765)</i>	<i>42,887</i>	<i>55,945</i>	<i>(6,673)</i>	<i>(32,488)</i>	<i>94</i>	-	-
Administrative expenses	(28,117)	(168,588)	(17,818)	(68,186)	(55,696)	(8,419)	-	(346,824)
Depreciation and amortization	(3,673)	(25,229)	(2,300)	(13,100)	(12,318)	(609)	-	(57,229)
Reportable segment profit/(loss) before impairment and provision charge	127,831	31,225	8,198	52,066	30,296	(3,461)	-	246,155
Share of profits of associates and joint ventures	-	-	-	-	-	3,856	-	3,856
Impairment and provisions charge	(253,705)	(52,849)	(5,998)	(38,519)	(120,542)	(5,363)	-	(476,976)
(Loss)/profit before income tax	(125,874)	(21,624)	2,200	13,547	(90,246)	(4,968)	-	(226,965)
<i>Non-controlling interests</i>	-	-	-	<i>1,615</i>	<i>(5,260)</i>	-	-	<i>(3,645)</i>
<i>Owners of the parent</i>	<i>(125,874)</i>	<i>(21,624)</i>	<i>2,200</i>	<i>11,932</i>	<i>(84,986)</i>	<i>(4,968)</i>	-	<i>(223,320)</i>
Income tax	-	-	-	-	-	-	21,031	21,031
Loss for the year								(205,934)
Reportable segment assets	5,425,222	3,294,928	3,422,407	2,926,835	2,630,972	75,828	-	17,776,192
Investments in associates and joint ventures	-	-	-	-	-	111,760	-	111,760
Reportable segment liabilities	1,703,920	6,433,219	4,178,447	2,485,997	1,611,500	443,246	-	16,856,329
Additions to non-current assets	1,889	18,366	1,072	9,440	48,664	767	-	80,198

b) Geographical information

NLB Group	Net revenues		Non-current assets		Total assets	
	2011	2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Slovenia	401,368	366,104	375,038	402,704	11,908,913	12,805,403
South East Europe	193,609	202,123	204,298	219,155	3,642,909	3,849,198
<i>Macedonia</i>	47,563	47,247	39,966	42,902	1,023,009	1,071,381
<i>Serbia</i>	29,438	38,161	43,480	44,070	491,897	562,293
<i>Montenegro</i>	32,300	30,949	17,326	17,462	528,885	535,210
<i>Croatia</i>	10,166	10,399	5,837	11,681	106,172	143,990
<i>Bosnia and Herzegovina</i>	51,393	51,139	68,805	74,697	1,087,972	1,076,166
<i>Bulgaria</i>	4,910	6,255	3	40	2,547	91,832
<i>Kosovo</i>	17,839	17,973	28,881	28,303	402,427	368,326
Western Europe	41,491	46,357	43,471	35,090	892,970	1,233,351
<i>Germany</i>	13,374	15,399	22,305	22,697	470,733	656,015
<i>Switzerland</i>	21,694	21,002	10,776	210	302,352	343,776
<i>Austria</i>	-	-	10,347	11,059	10,347	11,059
<i>Slovak Republic</i>	1,348	2,470	-	56	-	23,614
<i>Czech Republic</i>	5,075	7,486	43	1,068	109,538	198,887
TOTAL	636,468	614,584	622,807	656,949	16,444,792	17,887,952

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

None of the countries of South East Europe and Western Europe represents more than 10% of the NLB Group's revenue.

8.2. Related-party transactions

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows.

NLB and NLB Group	Management Board and other Key management personnel		Family members of the Management Board and other Key management personnel		Companies in which members of Management Board, Key management personnel or their family members have the control, joint control or significant influence		Supervisory Board	
	2011	2010	2011	2010	2011	2010	2011	2010
Loans issued								
Balance at January 1	2,800	3,295	650	711	555	1	105	112
Increase	1,538	1,528	560	614	552	764	80	12
Repayments	(1,689)	(2,023)	(640)	(675)	(326)	(210)	(14)	(19)
Balance at December 31	2,649	2,800	570	650	781	555	171	105
Interest income	89	92	26	26	26	16	5	3
Deposits received								
Balance at January 1	5,795	7,745	2,528	2,262	58	53	1,443	883
Increase	2,675	7,938	3,856	4,244	151	8	1,843	3,016
Repayments	(4,608)	(9,888)	(4,627)	(3,978)	(18)	(3)	(1,993)	(2,456)
Balance at December 31	3,862	5,795	1,757	2,528	191	58	1,293	1,443
Interest expense	(106)	(170)	(50)	(67)	-	-	(40)	(33)
Debt securities in issue								
Interest expense	(2)	(3)	-	-	-	-	(3)	(2)
Guarantees issued and credit commitments	388	520	161	99	133	-	23	23
Fee income	12	13	7	8	6	4	1	1

	NLB			NLB Group		
	Ultimate parent company	Shareholders with significant influence		Ultimate parent company	Shareholders with significant influence	
	2011	2011	2010	2011	2011	2010
Loans issued						
Balance at January 1	149,596	-	59,511	150,069	5,000	64,548
Increase	56,453	-	522,417	74,420	-	523,191
Repayments	(187,748)	-	(432,332)	(194,514)	-	(432,670)
Balance at December 31	18,301	-	149,596	29,975	5,000	155,069
Interest income	622	-	3,193	1,143	227	3,465
Loans received						
Balance at January 1	-	-	-	-	-	-
Increase	-	-	-	-	4,960	-
Repayments	-	-	-	-	(1,586)	-
Balance at December 31	-	-	-	-	3,374	-
Interest expense	-	-	-	-	(85)	-
Deposits						
Balance at January 1	-	655	71,443	-	655	71,443
Increase	-	5,790,410	3,124,734	-	5,790,410	3,124,734
Repayments	-	(5,790,189)	(3,195,522)	-	(5,790,189)	(3,195,522)
Balance at December 31	-	876	655	-	876	655
Interest income	-	481	270	-	481	270
Deposits received						
Balance at January 1	770,892	745	1,323,676	770,892	745	1,323,676
Increase	12,303,211	93,769	8,939,544	12,303,211	93,769	8,939,544
Repayments	(12,345,927)	(94,514)	(9,491,583)	(12,345,927)	(94,514)	(9,491,583)
Balance at December 31	728,176	-	771,637	728,176	-	771,637
Interest expense	(27,988)	(3)	(29,440)	(27,988)	(3)	(29,440)
Investments in securities						
Balance at January	847,249	19,915	1,058,132	847,249	19,915	1,058,132
Increase	700,413	94	1,232,802	705,403	94	1,232,802
Repayments	(307,675)	(20,000)	(1,421,578)	(307,675)	(20,000)	(1,421,578)
Valuation	(32,465)	(9)	(2,192)	(32,455)	(9)	(2,192)
Balance at December 31	1,207,522	-	867,164	1,212,522	-	867,164
Interest and dividend income	30,402	94	25,321	30,464	94	25,321
Debt securities in issue						
Interest expense	-	(77)	(731)	-	(77)	(731)
Derivatives						
Fair value	-	1,961	5,139	-	1,961	5,139
Contractual amount	-	221,604	493,220	-	221,604	493,220
Other assets						
	1,843	-	3,030	1,843	-	3,030
Other liabilities						
	5,346	-	22,240	5,346	-	22,240
Guarantees issued and credit commitments						
	1,275	-	8,515	1,275	-	8,515
Fee income	13	21	137	13	21	137
Fee expense	-	(1)	-	-	(1)	-
Other income	235	-	46	235	-	46
Other expense	(28)	-	(467)	(28)	-	(467)

In 2010 the Republic of Slovenia was included in shareholders with significant influence. Since March 2011 it is shown as the ultimate controlling party as its direct and indirect holding in NLB exceeds 50%.

In year 2011 NLB entered into transactions with government related entities under usual terms and market prices. Individually significant transactions with government related entities present mainly long-term loans and borrowings and interest rate swaps. In 2011 the total amount of individually significant transactions for long-term loans (7 transactions) in the amount of EUR 657,129 thousand (December 31, 2010: 10 transactions in amount of EUR 1,107,792 thousand), long-term debt security in amount of EUR 200,803 thousand (December 31, 2010: EUR 148,811 thousand), short-term loan in amount of EUR 50,026 thousand (December 31, 2010; EUR 50,257 thousand), long-term borrowing (11 transactions) in the amount of EUR 598,539 thousand (December 31, 2010: 9 transactions in amount of EUR 561,295 thousand) and interest rate swaps (11 transactions) in the amount of EUR 468,352 thousand (December 31, 2010: 7 transactions in amount of EUR 396,898 thousand).

For long-term loans, NLB recognized interest income in the amount of EUR 21,207 thousand (2010: EUR 13,511 thousand), for long-term debt security interest income in amount of EUR 2,930 thousand (2010: EUR 2,600 thousand), for short-term loan interest income in amount of EUR 26 thousand (2010: EUR 231 thousand), for long-term borrowing interest expense in the amount of EUR 13,190 thousand (2010: EUR 9,686 thousand) and for interest rate swaps net interest income together with net valuation result in the amount of EUR 62,711 thousand (2010: EUR 30,327 thousand). Interest rates for loans and borrowings present 6 months EURIBOR and margin under usual terms.

NLB	Subsidiaries		Associates		Joint ventures	
	2011	2010	2011	2010	2011	2010
Loans issued						
Balance at January 1	956,228	972,462	8,069	8,069	40,559	30,011
Merger of subsidiaries	-	(32,814)	-	-	-	-
Increase	576,822	858,982	7,084	1,087	72,571	45,882
Repayments	(512,726)	(842,402)	(2,401)	(1,087)	(65,044)	(35,334)
Balance at December 31	1,020,324	956,228	12,752	8,069	48,086	40,559
Interest income	39,699	36,557	733	488	2,146	1,597
Loans received						
Balance at January 1	-	-	2,007	2,006	-	-
Increase	-	-	37	36	-	-
Repayments	-	-	(2,044)	(35)	-	-
Balance at December 31	-	-	-	2,007	-	-
Interest expense	-	-	(37)	(36)	-	-
Deposits						
Balance at January 1	120,001	237,673	23,236	52,442	-	-
Increase	2,020,532	2,731,303	353,519	316,065	-	-
Repayments	(2,026,778)	(2,848,975)	(338,572)	(345,271)	-	-
Balance at December 31	113,755	120,001	38,183	23,236	-	-
Interest income	1,515	2,480	345	400	-	-
Deposits received						
Balance at January 1	77,210	101,957	8,357	4,674	958	1,783
Merger of subsidiaries	-	(669)	-	-	-	-
Increase	23,634,925	19,432,586	220,780	293,785	111,237	69,983
Repayments	(23,651,997)	(19,456,664)	(216,717)	(290,102)	(102,670)	(70,808)
Balance at December 31	60,138	77,210	12,420	8,357	9,525	958
Interest expense	(1,138)	(789)	(414)	(47)	(314)	(16)
Investments in securities						
Balance at January 1	-	1,557	1,145	-	-	-
Increase	-	54	2,137	3,773	-	-
Repayments	-	(1,611)	(134)	(2,640)	-	-
Valuation	-	-	(27)	12	-	-
Balance at December 31	-	-	3,121	1,145	-	-
Interest and dividend income	-	54	64	42	-	-
Debt securities in issue	-	-	13,615	28,695	307	311
Interest expense	-	-	(767)	(828)	(19)	(8)
Derivatives						
Fair value	960	855	-	-	-	-
Contractual amount	16,886	16,084	-	-	-	-
Other assets	261	385	675	790	129	307
Other liabilities	690	501	1,129	998	98	-
Guarantees issued and credit commitments	423,581	745,887	833	1,524	9,175	16,675
Fee income	3,316	4,773	457	306	1,934	2,273
Fee expense	(302)	(253)	(9,330)	(10,352)	-	-
Other income	360	610	4,544	5,072	172	71
Other expense	(5,101)	(5,896)	(863)	(1,049)	(1,649)	(1,741)

(All amounts in EUR thousand unless otherwise stated)

NLB Group	Associates		Joint ventures	
	2011	2010	2011	2010
Loans issued				
Balance at January 1	32,328	15,582	152,743	142,450
Increase	7,084	22,899	86,290	53,236
Repayments	(13,178)	(6,153)	(79,001)	(42,943)
Balance at December 31	26,234	32,328	160,032	152,743
Interest income	1,357	768	9,615	8,950
Loans received				
Balance at January 1	12,444	15,235	-	-
Increase	10,576	1,588	-	-
Repayments	(13,683)	(4,379)	-	-
Balance at December 31	9,337	12,444	-	-
Interest expense	(591)	(583)	-	-
Deposits				
Balance at January 1	24,224	56,979	-	-
Increase	353,523	321,572	-	-
Repayments	(339,499)	(354,327)	-	-
Balance at December 31	38,248	24,224	-	-
Interest income	349	412	-	-
Deposits received				
Balance at January 1	8,408	10,040	3,512	7,024
Increase	220,980	299,240	322,980	224,048
Repayments	(216,717)	(300,872)	(311,277)	(227,560)
Balance at December 31	12,671	8,408	15,215	3,512
Interest expense	(422)	(127)	(374)	(81)
Investments in securities				
Balance at January 1	1,145	-	-	-
Increase	2,137	3,773	-	-
Repayments	(134)	(2,640)	-	-
Valuation	(27)	12	-	-
Balance at December 31	3,121	1,145	-	-
Interest and dividend income	64	42	-	-
Debt securities in issue	13,615	28,695	307	311
Interest expense	(767)	(828)	(19)	(8)
Other assets	675	790	143	311
Other liabilities	1,129	998	211	-
Guarantees issued and credit commitments	833	1,524	24,675	28,925
Fee income	457	306	2,091	2,390
Fee expense	(9,330)	(10,352)	-	-
Other income	4,544	5,072	172	71
Other expense	(863)	(1,049)	(1,649)	(1,741)

Key management compensation

In accordance with competence of the Supervisory Board, as defined by the Articles of Association of NLB, the Supervisory Board adopted the criteria for remunerating the members of the Management Board.

The basis for the collective remuneration of members of the Management Board are several quantitative indicators that compare:

- the operations of NLB and the NLB Group with respect to the plan;
- the operations of NLB and the NLB Group with respect to the previous year;
- the operations of NLB with respect to banks in Slovenia during the same year; and
- the operations of the NLB Group with respect to comparable banking groups during the same year.

The basis for the individual remuneration of members of the Management Board (qualitative part) are individual assignments from the work program for individual year.

NLB and NLB Group	Management Board		Other key management		Supervisory Board	
	2011	2010	2011	2010	2011	2010
Short-term benefits	691	804	7,120	8,023	144	81
Costs refunds	5	6	171	179	26	30
Long-term bonuses						
- <i>severance pay</i>	-	-	234	237	-	-
- <i>post employment benefits</i>	32	39	522	590	-	-
- <i>jubilee bonuses</i>	-	-	6	6	-	-
TOTAL	728	849	8,053	9,035	170	111

Short-term benefits include:

- monetary benefits (gross salaries, supplementary insurance, holiday allowances, other bonuses); and
- non-monetary benefits (company cars, health care, apartments, etc.).

The reimbursement of cost comprises food allowance and travel expenses.

Post-employment benefits include additional pension insurance and annuity savings.

Accrued earnings of individual members of the Management Board

		in EUR	
Member		2011	2010
1 Božo Jašovič	Short-term benefits:		
1.10.2009	- gross salary, benefits and holiday allowance	143,480	163,034
	Costs refunds	1,253	1,149
	Long-term bonuses:		
	- post employment benefits	2,683	2,646
	Total	147,416	166,829
2 David Benedek	Short-term benefits:		
14.7.2009	- gross salary, benefits and holiday allowance	140,306	159,572
	Costs refunds	1,102	1,111
	Long-term bonuses:		
	- post employment benefits	11,396	11,417
	- other bonuses	-	417
	Total	152,804	172,517
3 Claude J C Deroose	Short-term benefits:		
1.1.2009 – 16.5.2011	- gross salary, benefits and holiday allowance	61,257	161,693
	Costs refunds	314	1,051
	Long-term bonuses:		
	- post employment benefits	4,053	11,451
	Total	65,625	174,195
4 Marko Jazbec	Short-term benefits:		
1.12.2009	- gross salary, benefits and holiday allowance	140,247	159,093
	Costs refunds	1,059	1,176
	Long-term bonuses:		
	- post employment benefits	2,683	2,646
	Total	143,989	162,915
5 Robert Kleindienst	Short-term benefits:		
1.12.2009	- gross salary, benefits and holiday allowance	141,743	160,588
	Costs refunds	994	1,111
	Long-term bonuses:		
	- post employment benefits	10,167	10,804
	Total	152,904	172,503
6 Guy Snoeks	Short-term benefits:		
5.7.2011	- gross salary, benefits and holiday allowance	63,681	-
	Costs refunds	588	-
	Long-term bonuses:		
	- post employment benefits	1,118	-
	Total	65,386	-

Accrued earnings of individual members of the Supervisory Board

			in EUR	
Member			2011	2010
1 Marko Simoneti	Session fees		6,438	9,628
1.7.2009	Performance payment		11,000	-
2 Andrej Baričič	Session fees		7,948	11,484
1.7.2009	Performance payment		8,250	-
	Costs refunds		-	2,646
3 Jurij Detiček	Session fees		6,518	3,878
30.5.2010	Performance payment		8,250	-
4 Anton Macuh	Session fees		6,243	413
25.11.2010	Performance payment		6,875	-
	Costs refunds		656	-
5 Igor Masten	Session fees		6,023	8,579
1.7.2009	Performance payment		8,250	-
	Costs refunds		196	-
6 Rasto Ovin	Session fees		5,445	6,951
1.7.2009	Performance payment		8,800	-
	Costs refunds		3,046	3,090
7 Stojan Petrič	Session fees		4,730	8,690
1.7.2009	Performance payment		6,875	-
8 Boris Škapin	Session fees		5,225	9,900
1.7.2009	Performance payment		8,250	-
	Costs refunds		452	272
9 Riet Paula C L Docx	Session fees		7,315	9,900
1.7.2009	Performance payment		8,250	-
	Costs refunds		15,146	17,175
10 John Arthur Hollows	Session fees		4,510	6,490
1.7.2009	Performance payment		8,250	-
	Costs refunds		6,464	2,596
11 Jan O C Vanhevel	Session fees		330	1,650
1.7.2009 – 16.5.2011				
12 Gregor Dolenc	Session fees		-	3,300
1.7.2009 – 18.7.2010	Costs refunds		-	4,585

Accuity



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