NLB Group

Unaudited Annual Financial Statements 2018

NLB Group Strategic Members Overview

NLB Group

327

Branches

1,830,209

Active clients

203.6

Profit after tax
(consolidated, in EUR million)

12,740

Total assets
(consolidated, in EUR million)

Slovenia

NLB, Ljubljana

94
Branches

8,811
Total assets
(in EUR million)

688,547
Active clients

22.7%
Market share
by total assets

165.3
Profit after tax
(in EUR million)

NLB Skladi, Ljubljana

1,215
Assets under management
(in EUR million)

32.1%
Market share*
(mutual funds)

4.3
Profit after tax
(in EUR million)

* Market share of assets under management in mutual funds.

NLB Vita, Ljubljana

453
Assets of covered funds without own resources (in EUR million)

14.6%
Market share*

8.3
Profit after tax
(in EUR million)

* Market share in traditional life insurance.

Bosnia and Herzegovina

NLB Banka, Banja Luka

57
Branches

721
Total assets
(in EUR million)

216,389
Active clients

18.3%
Market share*
by total assets

16.2
Profit after tax
(in EUR million)

*Market share in the Republic of Srpska as at 31 December 2018 (preliminary data).

NLB Banka, Sarajevo

38
Branches

592
Total assets
(in EUR million)

136,021
Active clients

5.1%
Market share*
by total assets

8.8
Profit after tax
(in EUR million)

* Market share in the Federation of Bosnia and Herzegovina as at 30 September 2018.

Macedonia

NLB Banka, Skopje

54
Branches

1,350
Total assets
(in EUR million)

389,465
Active clients

16.3%
Market share
by total assets

37.1
Profit after tax
(in EUR million)

Kosovo

NLB Banka, Prishtina

38
Branches

668
Total assets
(in EUR million)

202,632
Active clients

16.8%
Market share
by total assets

14.8
Profit after tax
(in EUR million)

Serbia

NLB Banka, Beograd

28
Branches

484
Total assets
(in EUR million)

134,974
Active clients

1.5%
Market share*
by total assets

5.2
Profit after tax
(in EUR million)

Montenegro

NLB Banka, Podgorica

18
Branches

489
Total assets
(in EUR million)

62,181
Active clients

11.1%
Market share
by total assets

10.0
Profit after tax
(in EUR million)

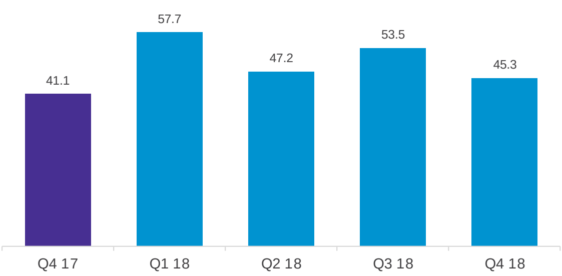
*Market share in Republika Srbija as at 30 September 2018.

Note:
The "profit after tax" data in the figure above shows the Group members' standalone profit after tax, and not their contribution to the consolidated profit after tax.
An active client is a client who has for a period not shorter than one month any investment/saving product with a positive balance, or loan/deposit/guarantee product, or insurance business, or who made at least one bank account debit or credit card transaction in the last three months.

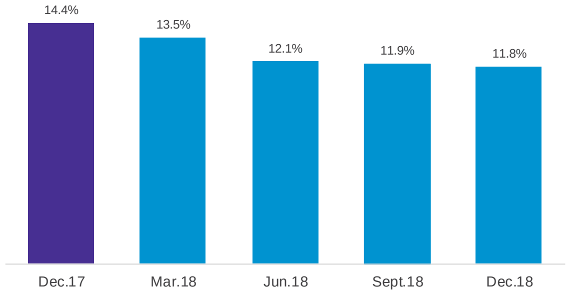
Contents

Figures at a Glance

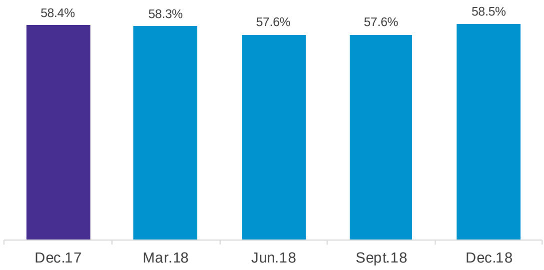
Profit a.t. - quarterly (in EUR million)



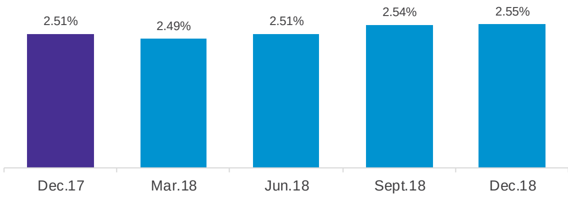
ROE a.t. - YtD (in %)



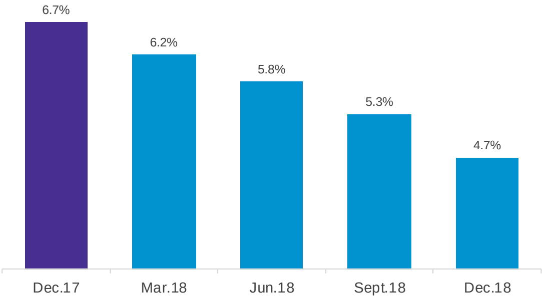
Cost /income ratio (CIR) - YtD (in %)



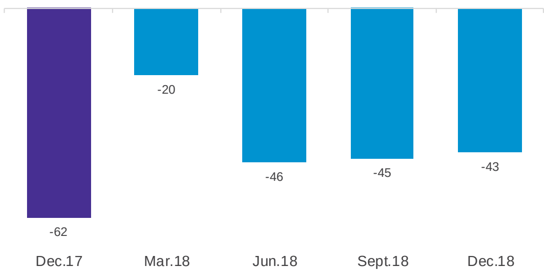
Interest margin - YtD (in %)



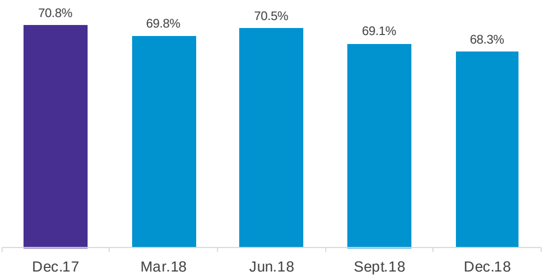
Non-performing exposure (NPE) - YtD (in %)



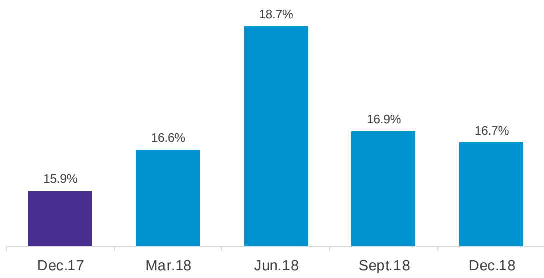
Cost of risk net - YtD (in bp)



Loan to deposit ratio (LTD) - YtD (in %)



Total capital ratio - YtD (in %)



Note:
31 Dec 2018 includies 1H 2018 result (EUR 109 million).

Key Financial Caption

Table 1: Key financial caption of NLB Group

in EUR million / % / bps	2018	2017	Change YoY	Q4 18	Q3 18	Q4 17
Key Income Statement Data (in EUR million)						
Net operating income	493.3	487.7	1%	124.3	125.9	122.4
Net interest income	312.9	309.3	1%	81.0	80.2	80.6
Net non-interest income	180.4	178.4	1%	43.3	45.7	41.8
Total costs	-288.7	-284.7	-1%	-78.3	-70.4	-76.9
Result before impairments and provisions	204.6	203.0	1%	46.0	55.5	45.6
Impairments and provisions	23.3	29.5	-21%	4.3	4.6	-7.7
Result after tax	203.6	225.1	-10%	45.3	53.5	41.1
Key Financial Indicators						
Return on equity after tax (ROE a.t.)	11.8%	14.4%	-2.6 p.p.			
Return on assets after tax (ROA a.t.)	1.6%	1.9%	-0.2 p.p.			
RORAC a.t.[1]	15.3%	19.0%	-3.7 p.p.			
Interest margin (on interest bearing assets)[2]	2.56%	2.57%	-0.01 p.p.	2.63%	2.59%	2.67%
Interest margin (on total assets - BoS ratio)	2.50%	2.57%	-0.07 p.p.	2.56%	2.53%	2.66%
Cost-to-income ratio (CIR)	58.5%	58.4%	0.1 p.p.	63.0%	55.9%	62.8%
Cost-to-income ratio (CIR) normalised [3]	59.0%	58.9%	0.1 p.p.	59.7%	55.4%	60.1%
Cost of risk net (bps)[4]	-43	-62	19			

	31 Dec 2018	31 Dec 2017	Change YoY
Key Financial Position Statement Data (in EUR million)			
Total assets	12,740.0	12,237.7	4%
Loans to customers (gross)	7,627.5	7,641.2	0%
Loans to customers (net)	7,148.4	6,994.5	2%
o/w Key business activities	6,761.4	6,425.4	5%
Deposits from customers	10,464.0	9,879.0	6%
Equity	1,616.2	1,653.6	-2%
Other Key Financial Indicators			
LTD (Net loans to customers/Deposits from customers)	68.3%	70.8%	-2.5 p.p.
Common Equity Tier 1 Ratio*	16.7%	15.9%	0.8 p.p.
Total capital ratio*	16.7%	15.9%	0.8 p.p.
Total risk weighted assets (in EUR million)	8,677.6	8,546.5	2%
NPL volume - gross (in EUR million)	622.3	844.5	-26%
NPL coverage ratio 1[5]	77.1%	77.5%	-0.5 p.p.
NPL coverage ratio 2[6]	64.6%	62.2%	2.4 p.p.
Non-performing loans (NPL)/total loans	6.9%	9.2%	-2.3 p.p.
Net non-performing loans (NPL)/total net loans	2.6%	3.8%	-1.2 p.p.
Non-performing exposure (NPE) - EBA Definition	4.7%	6.7%	-2.0 p.p.
Employees			
Number of employees	5,887	6,029	-2.4%

[1] Result a.t. / average capital requirement normalized at 15.38% RWA for 2018 and onwards, 14.75% before
[2] Further analyses of interest margins are based on interest bearing assets
[3] Without non-recurring revenues and restructuring costs
[4] Credit impairments and provisions (annualised level) / average net loans to non-banking sector
[5] Coverage of gross non-performing loans with impairments for all loans
[6] Coverage of gross non-performing loans with impairments for non-performing loans
*31 Dec 2018 includes 1H 2018 result (EUR 109 million)

International credit ratings NLB	31 December 2018	31 December 2017	Outlook
Standard & Poor's	BB+	BB	Positive
Fitch	BB+	BB	Stable
Moody's *	Baa2	Ba1	Positive

* Unsolicited rating

Glossary of Terms and Definitions

ALM	Asset and Liability Management
bps	Basis Points
CET 1	Common Equity Tier 1
CBR	Combined Buffer Requirement
CIR	Cost-to-Income Ratio
CRR	Capital Requirements Regulation
DGS	Deposit Guarantee Scheme
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
FX	Foreign Exchange
GDP	Gross Domestic Product
IAS 39	International Accounting Standard 39
ICAAP	Internal Capital Adequacy Assessment Process
IFRS 9	International Financial Reporting Standard 9
ILAAP	Internal Liquidity Adequacy Assessment Process
LTD	Loan-to-Deposit Ratio
MREL	Minimum requirement for own funds and eligible liabilities
NIM	Net Interest Margin
NLB or the Bank	NLB d.d.
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
OCR	Overall capital requirement
p.p.	Percentage point(s)
ROA	Return on Assets
ROE	Return on Equity
RoS	Republic of Slovenia
RWA	Risk Weighted Assets
SEE	South-Eastern Europe
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
The Group	NLB Group
TLOF	Total Liabilities and Own Funds
TSCR	Total SREP Capital Requirement
US	United States of America

Macroeconomic Environment

The global economy continued to grow in 2018 even though it started to slow down in H2 2018. It maintained the momentum gained in 2017 in H1 2018 with a 3.6% growth, whereas in H2 2018 it slightly lost the steam falling to 3.3% annually. Developed countries saw a drop in the unemployment rate and the salary rise, which in turn resulted in higher consumption. Higher prices of crude oil and food boosted inflation, particularly in Q2 2018. Thus, the US inflation came close to 3% in May, while in the Euro area it reached a new high in more than a year at the end of H1 2018. The growing US inflation convinced the FED to increase the key interest rate four times in 2018, lastly from 2.25% to 2.5% in December 2018, above the psychological level of 2%. In the US, the consumption, along with the steady job gains, continues to boost the economic growth. Asia sustained high growth rates despite slightly losing the momentum due to trade war concerns, whereas the growth in Latin America was insufficient due to weaker activity in some key economies. Emerging countries, nevertheless, felt the consequences of the higher US interest rates resulting in capital outflows toward the US.

In H1 2018, the European economy recorded positive economic growth, although slightly lower than in H1 2017. Euro area GDP increased by 0.2%, QoQ, in the Q3 2018, following a growth of 0.4% in the previous two quarters. The results have been weaker than expected, reflecting a weakening contribution from external demand and some country and sector-specific factors. In December 2018, the Euro zone economic sentiment declined noticeably partially reflecting decreasing confidence in industry, which was consistent with the third consecutive monthly fall of industrial output in Germany in November. Since the Europe’s largest economy seems to be shifting into a lower gear this will inevitable have a diminishing effect also on the Euro area growth. At its December meeting, the ECB decided to end the net asset purchases in December 2018, while keeping the key ECB interest rates unchanged at least until the end of summer 2019 and enhancing the forward guidance on reinvestment. On the other hand, uncertainties related to geopolitical factors and the threat of protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent. Hence, the ECB believes that significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. Euro area sovereign bond spreads have been largely stable, apart from those for Italy, which have exhibited considerable volatility. Although corporate earnings expectations remain robust, some downward revisions, in addition to risk repricing, have led to lower equity and bond prices of Euro area corporations. In the foreign exchange markets, the euro has broadly weakened in trade-weighted terms.

Economy in the Group’s Region

The Group’s area of operations in the SEE markets has shown an increase of economic growth from 2.9% in 2017 to 3.6% in 2018 on average, whereas consumer prices increased by 1.7% in 2018, as the Consensus Forecast from FocusEconomics has reported. Specifically, the highest YoY increase of economic growth was registered in Serbia, growing to 4.4% (2017: 2%), followed by Macedonia with the increase to 2.3% (2017: 0.2%). Montenegro’s growth slightly decreased to 4.2% (2017: 4.7%), as well as Kosovo’s to 4.1% (2017: 4.2%) and Bosnia and Hercegovina to 3% (3.5%). The fiscal balance as a percentage of GDP is positive for the second consecutive year in Serbia and Bosnia and Hercegovina, whereas in Macedonia, Montenegro and Kosovo, it is negative. The current account balance as a percentage of GDP is negative in all the above-mentioned countries. Serbia revealed a slowdown in Q3 2018 after surging growth in H1 2018 but remained on solid foundations with private consumption, fixed investments and exports all surging. In the same period, Kosovo’s performance was supported by higher wages, remittances and tourism. Montenegro’s performance was reinforced by strong fixed investments, and Macedonia’s performance was supported by robust consumption, while a Bosnia and Herzegovina’s slight decrease was due to diminished exports. In Q4 2018 the growth should remain robust underpinned by wage growth and compact labour markets, as well as still solid expansion in the EU. Some risks have been incurred by Kosovo’s introduction of 100% tariffs on Serbian and Bosnian imports. In Macedonia, the parliament agreed to change the country's name, which can end Greece blocking Macedonia’s aspirations to join the Nato and EU. Montenegro and Serbia opened further EU accession chapters in their negotiations with the EU, while Bosnia and Hercegovina elected a new tripartite state presidency as well as over 500 other government officials in the general elections last October.

Slovenia’s economic growth in 2018 remains robust with 4.5%. The inflation increased to 1.9% in 2018 after lower rates in the previous years. Favourable economic conditions continued to have a positive impact on the labour market. The number of employed persons grew by 3% on average for the second consecutive year. The market is now steadily closing in on the natural unemployment level. The economic sentiment and consumer confidence indicators fell notably in the first nine month of 2018, but still stood above the long-term average. A lively real-estate market continued in Q2 2018, although with the lowest number of transactions since Q3 2015. In the first nine months of 2018, the industrial production was 6.2% higher YoY, while compared to the annual average of 2015 it increased by 22.0%. Likewise, the growth in real construction output strengthened notably in the first nine months of 2018. The average annual growth came to 21.8%, but the real construction output is still lagging behind the pre-crisis value. The current account balance and the general government budget remain positive. The overall economic growth contributed to a further decrease of the public debt and its servicing.

Banking System in the Group’s Region

The banking systems in the Group’s region improved in 2018. Kosovo’s corporate loans were the flagship of the region with a 10.6% YoY growth in November, while the growth in Serbia and Slovenia was moderate with a 3.2% and 3.1% YoY, respectively. The highest increase of retail loans was registered by Serbia and Kosovo with around 12% YoY, whereas Slovenia and Bosnia and Hercegovina recorded 7% YoY. Macedonia has shown the highest increase in the corporate deposits growth with 15.5% YoY, while Bosnia and Hercegovina and Kosovo both revealed an over 10% growth, i.e. 12% and 10.2% YoY respectively. The growth of retail deposits has remained solid in the whole Group’s region, growing from 6.4% YoY in Slovenia up to 8.8% YoY in Montenegro. The highest net interest margin of around 5% was in Serbia and Kosovo, followed by Montenegro with around 4%. Slovenia has a moderate net interest margin of 1.8% due to the constraints imposed by the Eurozone and ECB interest rate policy. The NPL ratio used to measure the quality of banks’ lending portfolio improved in all the banking systems in the region, with Serbia in the lead with 7.8 percentage points YoY. The Capital Adequacy Ratio (CAR) of the banking systems remained at solid levels.

The Slovenian banking system continued to grow in 2018. The growth of loans to the non-banking sector slightly increased in November 2018 to 6.1%. The growth of retail loans was 7.1%, with consumer loans at 11.7% and housing loans at 4.7% YoY. The growth of loans to non-financial corporations remained moderate at 3.1% YoY. The growth of deposits by the non-banking sector in November 2018 stood at 5%, still exceeding the growth of total assets. The share of deposits in banking liabilities was 74%, while the net increase in deposits was sufficient for banks to finance their lending activities. The growth of retail deposits was relatively high, 6.4% YoY. The sight deposits increased to 72% of all deposits of the non-banking sector, or almost 54% of total liabilities. The quality of banks' investments continues to improve. The NPE ratio fell to 4.2% in November 2018, whereas the NPL ratio declined to 6.0%. In the period from January to November 2018, the banking system operated with the pre-tax profit that was 18% higher YoY. The liquidity coverage ratio of 323% exceeded the regulatory requirement. The capital adequacy of the banking system declined at the end of Q3 in 2018, but remained at a solid level. On a single basis it reached 19.8% and on the consolidated basis it was 18.1% and remains above the average capital adequacy of the Euro area countries.

Business Report

NLB Group Key Developments:

65%

of the RoS's share in the Bank was sold to the public in the first phase of privatisation. At the end of 2018, the RoS owned 35% of the Bank. The second phase is expected to be completed in 2019 reducing the RoS shareholding to 25% plus one share.

10%

Continued loan growth in the strategic foreign markets (10% YoY) and retail lending in Slovenia (6% YoY).

EUR 203.6 million

Profit after Tax
The Group realised a profit after tax in the amount of EUR 203.6 million, a 10% decrease YoY.

16.7%

Total Capital Ratio
At the end of 2018, the capital ratios (CET 1, Tier 1 and Total capital ratio) of the Group remained strong, reaching 16.7% (including 1H 2018 result), and were above the regulatory thresholds.

39%

Strategic foreign markets continued to perform well and contributed 39% to the Group profit before tax.

4.7%

NPE
Further improvement of the loan portfolio quality was also reflected in the additional reduction of NPLs in Q4 2018. The NPL ratio consequently decreased to 6.9%, while the NPE ratio fell to 4.7%.

3%

Fee and commission income increase
The Total Net operating income was EUR 493.3 million, an increase of 1% YoY (EUR 487.7 million) as a result of a higher net interest income (1% YoY) and net fee and commission income (3% YoY).

1%

Recurring profit before impairments and provisions was EUR 197.5 million, an increase of 1% YoY (EUR 2.1 million).

58.5%

CIR stood at 58.5% and normalised CIR* at 59.0%, which is 0.1 p.p. higher YoY.

* Without non-recurring revenues, performance rewards and restructuring costs.

Financial Performance

Table 2: Income statement of NLB Group

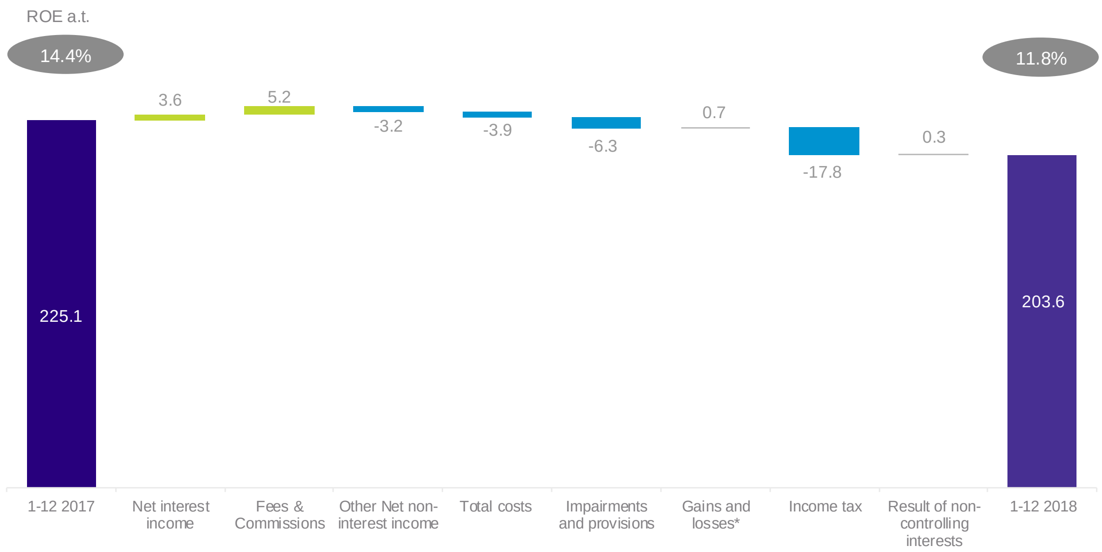
in EUR million	2018	2017	Change YoY		Q4 18	Q3 18	Q4 17	Change QoQ	
Net interest income	312.9	309.3	3.6	1 %	81.0	80.2	80.6	0.9	1 %
Net fee and commission income	160.6	155.4	5.2	3 %	40.7	40.4	40.2	0.3	1 %
Dividend income	0.1	0.2	-0.1	-34 %	0.0	0.0	0.0	0.0	-25 %
Net income from financial transactions	14.7	26.7	-12.0	-45 %	3.1	5.0	4.2	-1.9	-38 %
Net other income	4.9	-3.9	8.8	-	-0.5	0.3	-2.6	-0.8	-
Net non-interest income	180.4	178.4	2.0	1 %	43.3	45.7	41.8	-2.5	-5 %
Total net operating income	**493.3**	**487.7**	**5.6**	**1 %**	**124.3**	**125.9**	**122.4**	**-1.6**	**-1 %**
Employee costs	-165.1	-164.5	-0.6	0 %	-43.2	-41.1	-43.9	-2.1	-5 %
Other general and administrative expenses	-96.3	-92.4	-3.9	-4 %	-28.4	-22.5	-26.0	-5.9	-26 %
Depreciation and amortisation	-27.2	-27.8	0.6	2 %	-6.7	-6.9	-7.0	0.1	2 %
Total costs	**-288.7**	**-284.7**	**-3.9**	**-1 %**	**-78.3**	**-70.4**	**-76.9**	**-7.9**	**-11 %**
Result before impairments and provisions	**204.6**	**203.0**	**1.6**	**1 %**	**46.0**	**55.5**	**45.6**	**-9.5**	**-17 %**
Impairments and provisions for credit risk	30.2	43.4	-13.2	-30 %	7.0	7.6	6.6	-0.6	-8 %
Other impairments and provisions	-6.9	-13.9	7.0	50 %	-2.7	-3.0	-14.3	0.3	10 %
Impairments and provisions	23.3	29.5	-6.3	-21 %	4.3	4.6	-7.7	-0.3	-6 %
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	5.4	4.8	0.7	14 %	1.3	1.6	1.0	-0.2	-14 %
Result before tax	**233.3**	**237.3**	**-4.0**	**-2 %**	**51.7**	**61.7**	**38.9**	**-10.0**	**-16 %**
Income tax	-21.8	-4.0	-17.8	-	-5.1	-6.0	3.2	0.9	15 %
Result of non-controlling interests	7.9	8.2	-0.3	-4 %	1.2	2.2	1.0	-1.0	-44 %
Result after tax	**203.6**	**225.1**	**-21.4**	**-10 %**	**45.3**	**53.5**	**41.1**	**-8.2**	**-15 %**

Profit

The Group generated EUR 203.6 million of profit after tax, EUR 21.4 million or 10% less YoY. The Group's result was based on the following key drivers and YoY evolution:

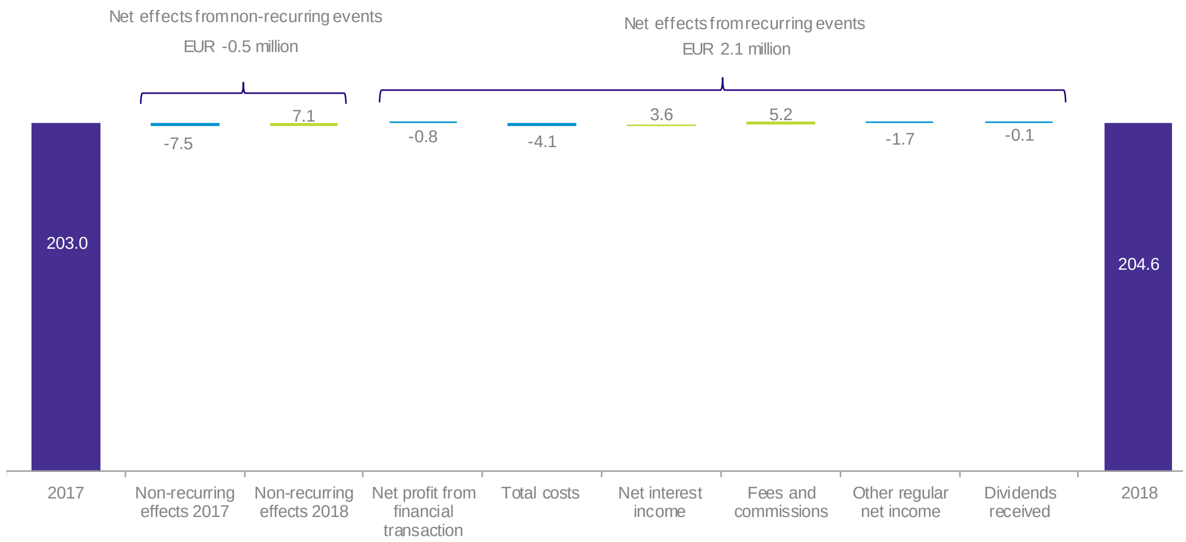
- Net interest income higher in the Group by EUR 3.6 million or 1%, mainly due to loan volume growth and lower interest expenses.
- Net fee and commission income higher by EUR 5.2 million or 3%; mostly as a result of new package offer for individuals.
- Costs higher by EUR 3.9 million or 1% YoY, due to major increase in costs related to accelerated marketing/promotion and business consulting.
- Release of impairments and provisions in the amount of EUR 23.3 million, mostly individual credit impairments.
- Income tax higher by EUR 17.8 million; namely, in 2017 the Bank recorded a positive impact from a non-recurring event related to the utilisation of previously tax non-deductible expenses of impairments on a subsidiary that was divested in 2017 and an increase of deferred tax assets to the amount that is expected to be reversed in the foreseeable future (i.e. within 5 years).
- Non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje, in the positive amount of EUR 12.2 million.
- Negative non-recurring effect from the sale of a 28.13% minority stake in the Skupna pokojninska družba in the amount of EUR 0.5 million.

Figure 1: Profit after tax of NLB Group – evolution YoY (in EUR million)



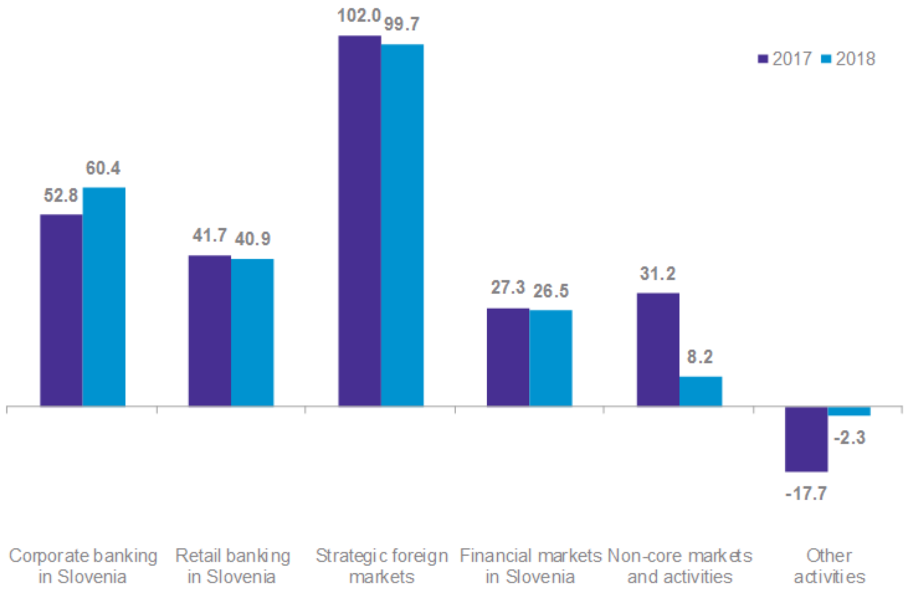
* Gains less losses from capital investments in subsidiaries, associates, and joint ventures.

Figure 2: Profit before impairments and provisions of NLB Group – evolution YoY (in EUR million)



Profit before impairments and provisions of the Group totalled EUR 204.6 million, which is EUR 1.6 million higher YoY, including regulatory expenses in the amount of EUR 16.3 million, of which EUR 13.8 million relates to DGS and EUR 2.5 million to SRF.

Figure 3: Profit before tax of NLB Group by segments (in EUR million)



The Corporate segment recorded an increase in profit before tax of 14%, mostly based on the higher release of credit impairments (19%) and higher net income from financial transactions due to the effects of the valuation of loans at fair value in Restructuring and Workout (IFRS 9 implementation). The Retail banking in Slovenia realised a profit before tax in the amount of EUR 40.9 million, which is 2% lower YoY. The result is based on a higher net operating income (4%), higher costs (6%), and additional impairments and provisions (26%). A negative non-recurring effect from the sale of a 28.13% minority stake in the Skupna pokojninska družba of EUR 0.5 million is included in this segment. The Strategic foreign markets contributed the largest share to the profit before tax in the amount of EUR 99.7 million, down 2% YoY, including the positive effect of a non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million. All the banks in the Group operating in the SEE market had a profit and they contributed EUR 92.9 million (40%)[1] to the Group profit before tax (2017: EUR 104.5 million or 44%), EUR 11.6 million lower YoY, mostly due to a lower release of loan impairments and provisions in 2018.

The Non-core markets and activities performed in line with the restructuring plan, generating a profit before tax of EUR 8.2 million, EUR 22.9 million or 74% lower YoY due to the non-recurring income of this segment in 2017[2].

The segment Other activities covers the operations in the Bank whose operating results cannot be allocated to relevant segments. The result before tax of this segment was negative, EUR 2.3 million.

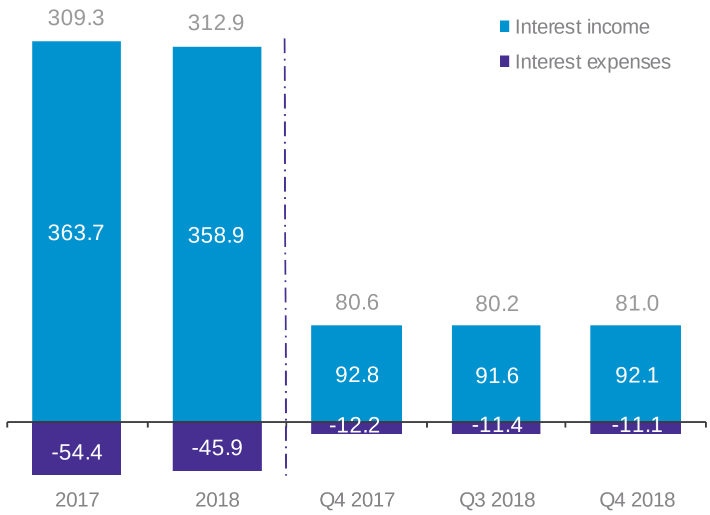
Notes:

[1] In NLB Banka, Skopje, the positive effect of non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje, in the amount of EUR 8.5 million is not included.

[2] Non-recurring income in 2017: the positive effects of non-core equity participation (EUR 9.5 million), a court settlement with Zavarovalnica Triglav (EUR 1.2 million), and the negative effect of the sale of non-core subsidiary NLB Factoring Brno a.s. "v likvidaci" (EUR 1.6 million).

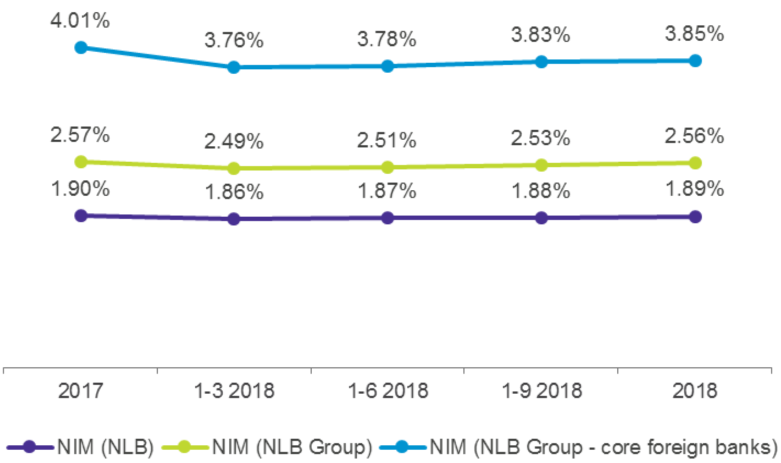
Net Interest Income

Figure 4: Net interest income of NLB Group (in EUR million)



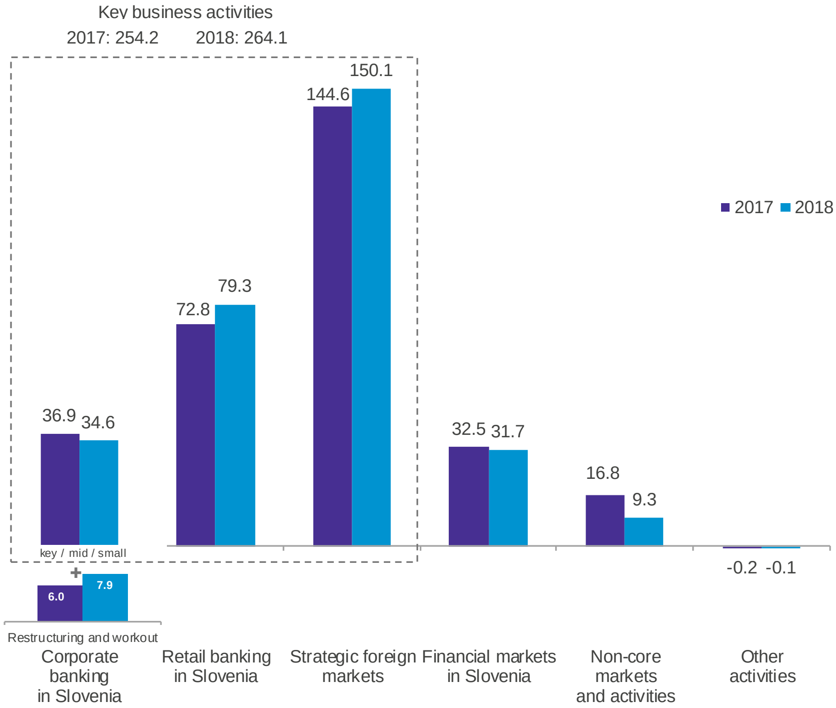
The net interest income increased by EUR 3.6 million or 1% YoY, totalling EUR 312.9 million, supported by a higher net interest income in Retail banking in Slovenia (EUR 6.6 million or 9%) and in Strategic foreign markets (EUR 5.5 million or 4%) and due to lower interest expenses of the Bank, attributed largely to the maturity of the NLB Bond in July 2017 (EUR 300 million bond issued in July 2014) and high-interest deposits.

Figure 5: Net interest margin of NLB Group (in %)



The net interest margin in the Group remained stable at 2.56% and in the Bank at 1.89%. The margin of the core banks operating on the SEE markets is below the level recorded in 2017.

Figure 6: Net interest income of NLB Group by segments (in EUR million)

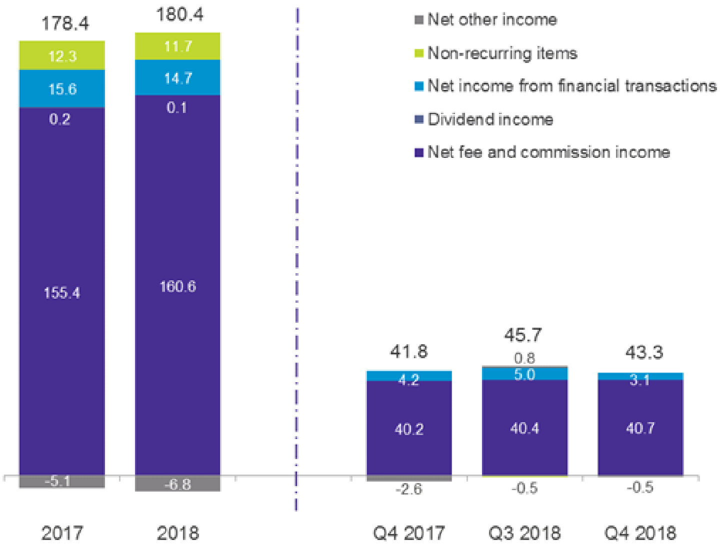


The net interest income of the Key business activities increased by 4% YoY, despite ongoing margine pressures, especially in Slovenia. The net interest income in:

- Key/Mid/Small Corporate banking in Slovenia decreased by EUR 2.2 million, or 6%, mainly due to lower loan volumes in the Key corporate clients segment.
- Retail banking in Slovenia increased by EUR 6.6 million, or 9% as a result of the loan volume evolution, despite strong price pressures. In Slovenia, retail a 6% loan growth YoY is a result of the increase in the lending volume and rising active interest rates on the new loan production.
- Strategic foreign markets improved by EUR 5.5 million or 4%, due to 10% or EUR 272.1 million YoY increase of gross loan volumes.
- Financial markets decreased slightly, EUR 0.8 million or 2%, due to falling yields in the securities portfolio (the maturity of some high yielding assets and reinvestments made in still low yielding environment) and due to higher expenses resulting from the increased level of excess liquidity.
- Non-core markets and activities was lower as a result of a lower volume of operations according to the restructuring plan.

Net Non-Interest Income

Figure 7: Net non-interest income of NLB Group (in EUR million)



The net non-interest income increased YoY and it reached EUR 180.4 million, including the non-recurring effects of the sale of NLB Nov penziski fond, Skopje (EUR 12.2 million), and the sale of a 28.13% minority stake in the Skupna pokojninska družba (EUR -0.5 million) in a total amount of EUR 11.7 million (non-recurring income in 2017 amounted to EUR 12.3 million).

The net non-interest income was affected by the regulatory costs in a total amount of EUR 16.3 million, of which EUR 8.3 million was related to Slovenia (SRF and DGS) and EUR 8.1 million to Strategic foreign markets (DGS).

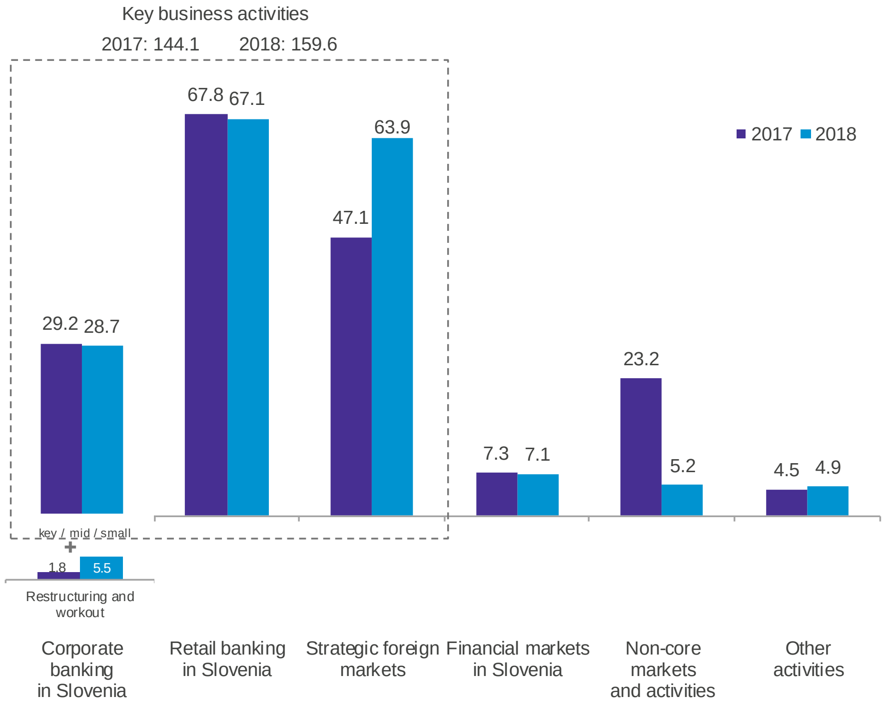
The regular net non-interest income (excluding non-recurring income[3]) totaling EUR 168.6 million increased by EUR 2.6 million or 2% YoY, due to the following factors:

- Net other income lower by EUR 1.7 million, mostly due to a lower income from the services provided by the Bank to third parties (EUR 1.9 million) and expenses related to issued service guarantees (EUR 1.2 million).
- Net fee and commission income higher by EUR 5.2 million or 3% YoY, mostly due to the new package offer for individuals that simplified the use of the most frequently used banking services. As a result, the highest increases were recorded in the Retail banking in Slovenia (EUR 2.8 million or 4%) and in Strategic foreign markets (EUR 2.1 million or 4%). The Financial markets in Slovenia also recorded a substantial increase (EUR 1.2 million or 26%) due to growing revenues in asset management.

Notes:

[3] Non-recurring income in 2017: the positive effect of the sale of non-core equity participation (EUR 9.5 million), a court settlement with Zavarovalnica Triglav (EUR 1.2 million), and the sale of non-core subsidiary NLB Factoring Brno a.s. “v likvidaci” (EUR 1.6 million).
Non-recurring income in 2018: the positive effect of the sale of core subsidiary NLB Nov penziski fond, Skopje (EUR 12.2 million) and the negative effect of the sale of a 28.13% minority stake in the core subsidiary Skupna pokojninska družba (EUR 0.5 million).

Figure 8: Net non-interest income by segments of NLB Group (in EUR million)



The net non-interest income of Key business activities increased by EUR 15.6 million, or 11% YoY, almost exclusively due to the contribution of the Strategic foreign markets:

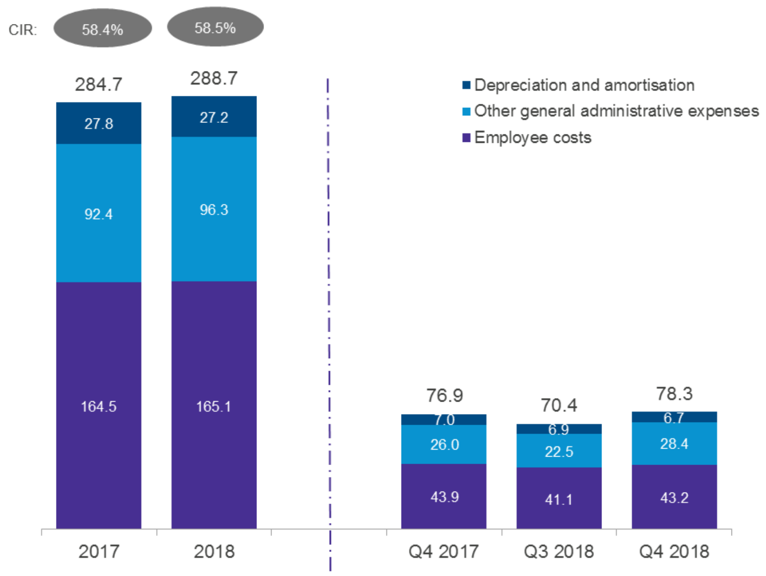
- Strategic foreign markets net non-interest income increased substantially by EUR 16.8 million or 36% YoY, of which EUR 12.2 million represents non-recurring income from the sale of the NLB Nov penziski fond, Skopje.
- Corporate banking in Slovenia realised EUR 34.1 million of net non-interest income, of which EUR 29.9 million were net fees and commission income.
- Despite EUR 2.8 million or a 4% higher net fee and commission income, the Retail banking in Slovenia recorded a slight decrease of 1%, due to EUR 2.2 million higher regulatory expenses (DGS EUR 1.4 million and SRF EUR 0.8 million higher YoY) and the negative effect from the sale of a 28.13% minority stake in Skupna pokojninska družba d.d. (EUR -0.5 million);
- Financial markets in Slovenia's net non-interest income decreased by EUR 0.2 million (1%).
- The Non-core markets and activities segment recorded a EUR 5.2 million of net non-interest income, EUR 18.9 million or 79% lower YoY, due to the non-recurring income in 2017 from successful divestment of non-core subsidiaries[4].

Notes:

[4] Please refer to note 2.

Total Costs

Figure 9: Total costs of NLB Group (in EUR million)

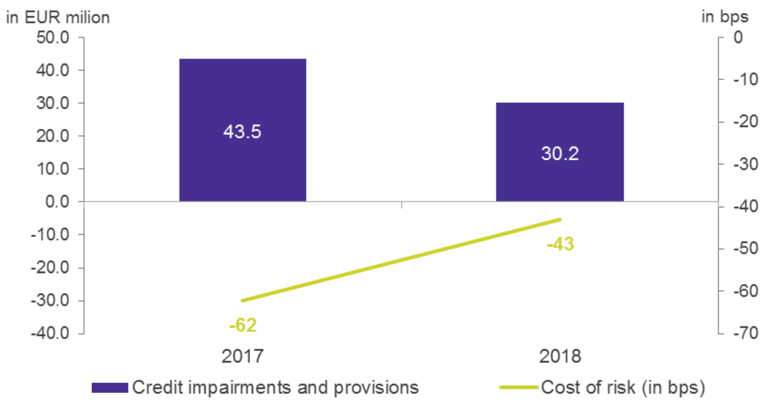


Total costs amounted to EUR 288.7 million (of which EUR 1.7 million comprised of non-recurring costs related to restructuring, as well as EUR 3.0 million in performance rewards), and are thus by EUR 3.9 million or 1% higher YoY. A major increase was recorded in costs related to accelerated marketing/promotion and business consulting (EUR 18.7 million).

CIR and CIR normalised[5] increased by 0.1 p.p. to 58.5% or 59.0% respectively.

Net Impairments and Provisions for Credit Risk

Figure 10: NLB Group impairments and provisions for credit risk and cost of risk (in bps)



Notes:

[5] Non-recurring items are excluded.

In 2018, the Group released EUR 23.3 million of net impairments and provisions, 21% less YoY.

Credit impairments and provisions were released in the amount of EUR 30.2 million, mainly as a result of a successful restructuring of several major exposures and the recovery of NPLs. In 2017, credit impairments and provisions were affected by the release of pool provisions in the amount of approximately EUR 21 million, mostly in the Corporate segment. Cost of risk in both periods is negative but increased from -62 bps to -43 bps.

Other impairments and provisions were established in the net amount of EUR 6.9 million, EUR 7.0 million less YoY, mostly due to established HR provisions in 2017 (EUR 8.6 million).

Financial Position[6]

Table 3: Statement of the financial position of NLB Group

	NLB Group			
in EUR million	31 Dec 2018	31 Dec 2017	Change YoY	
ASSETS				
Cash, cash balances at central banks, and other demand deposits at banks	1,588.3	1,256.5	331.9	26 %
Loans to banks	118.7	510.1	-391.4	-77 %
Loans to customers	7,148.4	6,994.5	154.0	2 %
Gross loans	7,627.5	7,641.2	-13.7	0 %
- Corporate	3,540.4	3,705.0	-164.6	-4 %
- Individuals	3,726.5	3,470.2	256.4	7 %
- State	360.5	466.0	-105.5	-23 %
Impairments and valuation of loans to customers	-479.0	-646.8	167.7	26 %
Financial assets	3,399.2	2,963.4	435.8	15 %
- Trading book	63.6	72.2	-8.6	-12 %
- Non-trading book	3,335.6	2,891.2	444.4	15 %
Investments in subsidiaries, associates, and joint ventures	37.1	43.8	-6.6	-15 %
Property and equipment, investment property	236.0	240.2	-4.1	-2 %
Intangible assets	35.0	35.0	0.0	0 %
Other assets	177.1	194.4	-17.2	-9 %
TOTAL ASSETS	**12,740.0**	**12,237.7**	**502.3**	**4 %**
LIABILITIES				
Deposits from customers	10,464.0	9,879.0	585.0	6 %
- Corporate	2,337.3	2,260.1	77.2	3 %
- Individuals	7,865.6	7,362.9	502.7	7 %
- State	261.1	256.0	5.1	2 %
Deposits form banks and central banks	26.8	40.6	-13.8	-34 %
Debt securities in issue	0.0	0.0	0.0	-
Borrowings	320.3	353.9	-33.6	-10 %
Other liabilities	256.5	248.7	7.8	3 %
Subordinated liabilities	15.1	27.4	-12.3	-45 %
Equity	1,616.2	1,653.6	-37.3	-2 %
Non-controlling interests	41.2	34.6	6.6	19 %
TOTAL LIABILITIES AND EQUITY	**12,740.0**	**12,237.7**	**502.4**	**4 %**

In 2018, total assets increased by EUR 502.3 million and totalled EUR 12,740.0 million, mainly driven by the continued inflows of deposits from individuals.

Notes:

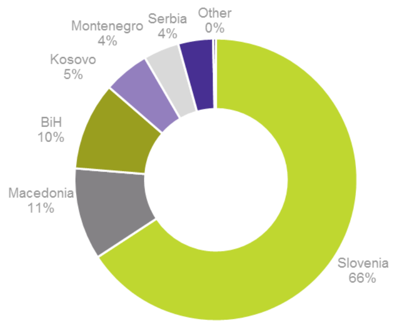
[6] On 1 January 2018, the IFRS 9 was implemented, therefore the data from 1 January 2018 onwards are not totally comparable with previous years.

Total gross loans to the non-banking sector amounted to EUR 7,627.5 million, and were on the same level as at the end of 2017 (EUR 13.7 million lower YoY).

The share of customers' deposits continued to increase and accounted for 94% of the total funding of the Group. The YoY increase derives from deposits from individuals (EUR 502.7 million or 7%) and corporate deposits (EUR 77.2 million or 3%).

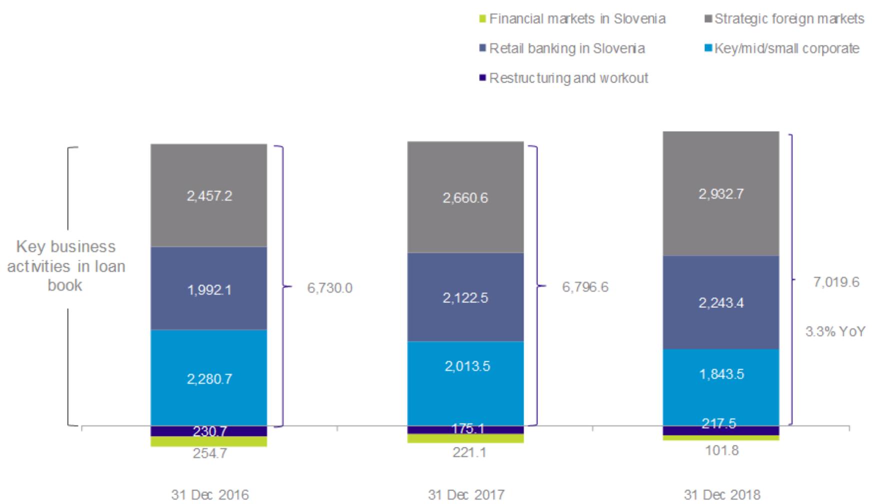
The LTD ratio (net) was 68.3% at the Group level; a decrease of 2.5 p.p. YoY as a result of increased deposits, which was partially neutralized by growing, but still moderate demand for loan.

Figure 11: Total assets by country (in %)[7]



Slovenia accounts for 66% of the total assets, while the vast majority of the remaining part of assets (34%) are in SEE countries.

Figure 12: Gross loans to customers by core segment (in EUR million)



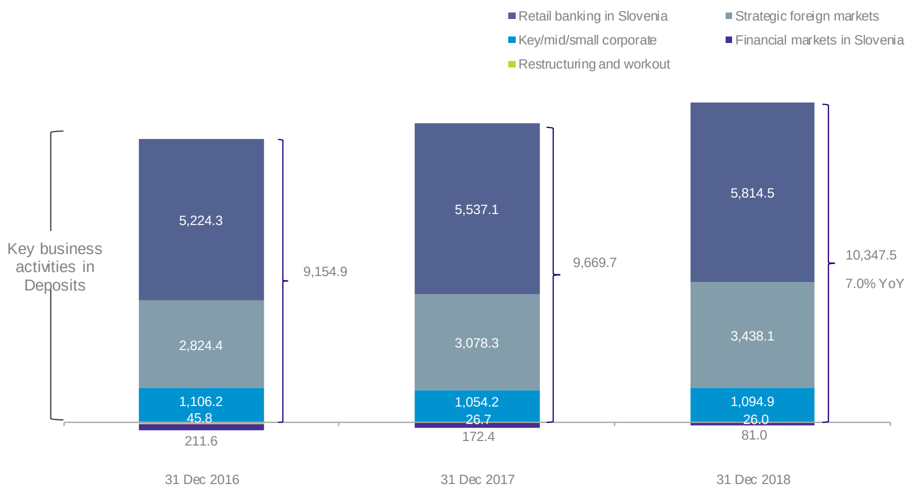
Key business activities recorded a 3% increase of gross loans to customers YoY to EUR 7,019.6 million. YoY increases of gross loans to customers were recorded in the Retail segment in Slovenia (EUR 121.0 million) and in

Notes:

[7] Geographical analysis based on location of Group member's headquarter.

Strategic foreign markets (EUR 272.1 million) with record growth in Kosovo, Montenegro, and Serbia. A significant decrease was recorded in the Key/Mid/Small Corporate segment (EUR 170.0 million YoY) because of a high amount of matured loans, prepayment of several large exposures, and transfer of some assets to the restructuring segment.

Figure 13: Deposits from customers by core segment (in EUR million)



Deposits from customers in Key business activities increased by 7% YoY. On the YoY basis, a slight increase of deposits was recorded in the Key/Mid/Small Corporate segment in Slovenia (EUR 40.6 million), while Strategic foreign markets and Retail banking in Slovenia recorded a substantial increase in deposits (EUR 359.8 million and EUR 277.3 million, respectively).

Segment Analysis

The Group monitors clients' operations in various segments that are defined in accordance with the Bank's long-term strategy and are divided into two major segments, i.e. Core and Non-Core.

The Core Markets and Activities include:

- Retail banking in Slovenia, which includes banking with individuals and asset management, as well as the results of the jointly-controlled company NLB Vita and the associated company Bankart;

- Corporate banking in Slovenia, which includes banking with large (key), medium-sized, micro, and small companies. The results of operations with healthy companies (sales), companies in restructuring, or defaulters (restructuring and workout) are monitored separately within the segment;

- Financial markets in Slovenia include treasury activities and trading in financial instruments, and also present the results of asset and liabilities management (ALM). Investment banking as a part of Financial Markets in Slovenia includes brokerage, custody of securities and financial consulting, and is, in this chapter, represented as a separate segment within Corporate banking in Slovenia, while it is included in the segment of Financial markets in Slovenia in the Financial Performance chapter.

- Strategic Foreign Markets, which include the operations of strategic Group companies on strategic markets (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, and Serbia).

Non-core markets and activities include the operations of non-core Group members and the non-core part of the portfolio of the Bank.

Other activities ('Other') include the categories whose operating results cannot be allocated to individual segments and include the costs of restructuring and the expenses for vacant business premises.

Retail Banking in Slovenia

Financial Highlights

- Net interest income was still under pressure given the continued low interest rates environment; nevertheless, it increased (9% YoY) due to the growth in retail loan portfolio and the slow growth in interest rates on new loans.
- Net non-interest income was burdened by EUR 2.2 million higher regulative expenses (DGS EUR 1.4 million and SRF EUR 0.8 million higher YoY) and the negative effect from the sale of 28.13% minority stake in Skupna pokojninska družba (EUR -0.5 million).
- Net fees and commission income increased by 4% YoY due to the revenue growth on asset management business and the new package offer for individuals.
- Higher costs and additional impairments and provisions contributed to the lower profit before tax by 2% YoY.
- Growth of 6% YoY in loan balances and growth of 5% YoY in deposits volume.

Business Highlights

- Launched the NLB Pay mobile wallet, an advanced method of payment with cards, enabling clients to pay for goods and services, including payments by installments, with their mobile phones.
- A package offer for individuals simplifying the use of the most commonly used banking services was introduced.
- The number of Klikin users as well as the range of its functionalities continue to grow; Klikin ranked first among mobile banks in Slovenia.
- NLB Skladi, the largest manager of mutual funds on the Slovenian market, with the market share increase to over 32%.

Table 4: Key financials of Retail banking in Slovenia

in EUR million consolidated	Retail Banking in Slovenia							
	2018	**2017**	**Change YoY**		**Q4 2018**	**Q3 2018**	**Q4 2017**	**Change QoQ**
Net interest income	79.3	72.8	6.6	9%	22.5	20.2	18.9	11%
Net non-interest income	67.1	67.8	-0.7	-1%	17.7	18.4	17.7	-4%
Total net operating income	**146.4**	**140.6**	**5.9**	**4%**	40.3	**38.6**	**36.6**	**4%**
Total costs	-107.3	-100.8	-6.5	-6%	-29.4	-26.7	-26.8	-10%
Result before impairments and provisions	**39.1**	**39.8**	**-0.7**	**-2%**	**10.8**	**11.9**	**9.8**	**-9%**
o/w non-recurring items	-0.5		-0.5	-		-0.5		-
Impairments and provisions	-3.7	-2.9	-0.8	-26%	-0.7	-0.8	-1.7	13%
Net gains from investments in subsidiaries, associates, and JVs'	5.4	4.8	0.7	14%	1.3	1.6	1.0	-14%
Result before tax	**40.9**	**41.7**	**-0.8**	**-2%**	**11.5**	**12.7**	**9.1**	**-9%**

	31 Dec 2018	**31 Dec 2017**	**Change YoY**	
Net loans to customers	2,217.4	2,083.9	133.6	6%
Gross loans to customers	2,243.4	2,122.5	121.0	6%
Housing loans	1,374.6	1,324.6	49.9	4%
Interest rate on housing loans	*2.50%*	*2.46%*	*0.04 p.p.*	
Consumer loans	599.0	525.0	74.0	14%
Interest rate on consumer loans	*5.88%*	*5.60%*	*0.28 p.p.*	
Other	269.9	272.9	-3.0	-1%
Deposits from customers	5,814.5	5,537.1	277.3	5%
Interest rate on deposits	*0.08%*	*0.14%*	*-0.06 p.p.*	
Non-performing loans (gross)	43.0	50.0	-7.0	-14%

Cost of risk (in bps)	17	14	4
CIR	73.3%	71.7%	1.6 p.p.
Interest margin	2.02%	1.95%	0.07 p.p.

The Bank maintained the leading position, with a market share of 23.2% in retail lending (2017: 23.4%) and 30.3% (2017: 30.7%) in deposit-taking.

The main sales channel is still the branch network of 94 branches, which is the largest branch network in Slovenia. Due to rationalization and cost optimization, 14 branch offices were closed in 2018 in view of moving from traditional to digital sales channels.

The Bank was the first on the Slovenian market to offer contactless ATMs to clients (254 out of 551 ATMs, which is the largest ATM network). With the implementation of contactless functionality, the level of safety increased as such ATMs are “immune” to skimming. In addition to contactless cash withdrawals, account balance can be checked at ATMs (according to the international card systems rules).

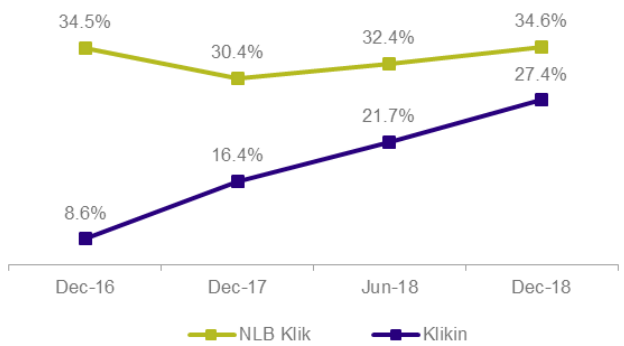
At the beginning of 2018, the Bank launched the NLB Pay mobile wallet application, which enables clients contactless, simple, quick and safe payments with NLB MasterCard and Maestro cards at contactless POS (in Slovenia and abroad). NLB Pay also enables payments by installments. 7,160 users downloaded the application in 2018 and they carried out over 140 thousand transactions in the total volume of almost EUR 3 million. NLB Pay will be gradually introduced in other banks of the Group.

The Bank provides the clients the right solutions at the right time and place. One of such solutions is providing packages for individuals (Basic Package, Young Package, Active Package, and Premium Package), which were offered to clients in early 2018. The packages include the most commonly used and needed banking products and simplify the clients’ daily banking services. Various options and procedures enable clients to change the existing personal account to a package without visiting the branch office.

As the first bank in Slovenia to offer special services to private banking clients, within the new NLB Privatno package, a brand new service called NLB Lifestyle was introduced, offering Mastercard Concierge and Mastercard LoungeKey services.

The use of the mobile bank Klikin continues to grow; the total number of users increased to 179,289 (76,854 new users in 2018) and reached more than a quarter of all the Bank’s customers (a 11 p.p. penetration increase YoY). Several Klikin upgrades were performed in 2018, including Face ID log-in option, integrated Chat and Video call for 24/7 support, insight in NLB Packages detail and option to initiate insurance take out for selected NLB Vita products. Also Express Loan was more frequently used via Klikin than via NLB branch offices.

Figure 14: Online and mobile banking penetration



The NLB Skladi market share increased to 32.11% (31 December 2017: 29.93%). The company ranked first in the amount of net-inflows with EUR 54.78 million in an environment of net outflows. The company remained the largest asset management company and also the largest mutual funds management company in Slovenia. Total assets under management were EUR 1,215 million (31 December 2017: EUR 1,202 million) of which EUR 792.8 million consisted of mutual funds (31 December 2017: EUR 795.3 million) and EUR 422.5 million in the discretionary potfolio (31 December 2017: EUR 407.0 million). In 2018, NLB Skladi launched two new mutual funds; NLB Funds – Equity Financials and NLB Funds – Equity Socially Responsible – Global Advanced Markets.

In 2018, NLB Vita charged EUR 76.9 million in gross written premium (a 9% increase YoY; 2017: EUR 70.8 million), of which EUR 73.1 million was in life insurance (31 December 2017: EUR 67.6 million), with an estimated balance sheet of EUR 459 million (31 December 2017: EUR 453.0 million). The market share of the insurance company, excluding pension companies, stood at 14.6% (31 December 2017: 13.5%), which ranked NLB Vita third among classic life insurance products in Slovenia. In 2018, NLB Vita successfully improved the contribution of regular premiums paid to overall gross written premium, especially with unit-linked insurance product NLB Vita Varčevanje +. NLB Vita’s flagship product remains NLB Vita Multi, an ad-hoc premium paid unit-linked product with partial capital protection to policyholder.

In September 2018, the Bank sold its 28.13% share in Skupna pokojninska družba to the insurance company Zavarovalnica Triglav d.d.

Corporate and Investment Banking in Slovenia

Financial Highlights

- The segment recorded EUR 60.4 million in profit before tax, showing an increase by EUR 7.5 million or 14% YoY, affected by the low interest environment and the generally very high liquidity in the market.
- Net operating income increased by EUR 2.7 million YoY, mostly due to higher net income from financial transactions due to the effects of the valuation of loans at fair value in Restructuring and Workout.
- Higher release of impairments and provisions (EUR 4.2 million).
- A decrease in gross loans due to the size of matured loans and prepayment of several large exposures in Key and Mid enterprises (-10% and -7% YtD, respectively), while Small enterprises continued to grow (9% YtD).

Business Highlights

- NLB Pay mobile wallet was also implemented for NLB business cards Maestro and MasterCard.
- Klikpro was upgraded with quick loan/overdraft, video call, and chat functionallities.
- A Group-wide payment offer was launched for clients of the Group.
- New package offer for companies was introduced and NLB Business Account or Business Package can now be opened online.
- The Bank participates in the "Štartaj Slovenija" project (Start it up Slovenia).
- The Bank succesfully managed and completed its first hedge coordination project.

Corporate Banking

Table 5: Key financials of Corporate banking of Slovenia

in EUR million consolidated	Corporate Banking in Slovenia							
	2018	**2017**	**Change YoY**		**Q4 2018**	**Q3 2018**	**Q4 2017**	**Change QoQ**
Net interest income	42.5	42.9	-0.4	-1%	10.7	11.6	12.6	-8%
Net non-interest income	34.1	31.0	3.1	10%	9.5	8.8	8.3	7%
Total net operating income	**76.7**	**73.9**	**2.7**	**4%**	**20.2**	**20.5**	**20.9**	**-1%**
Total costs	-43.0	-43.6	0.6	1%	-11.1	-10.5	-11.2	-6%
Result before impairments and provisions	**33.7**	**30.3**	**3.4**	**11%**	**9.2**	**10.0**	**9.6**	**-8%**
Impairments and provisions	26.6	22.5	4.2	19%	10.8	5.8	14.3	86%
Result before tax	**60.4**	**52.8**	**7.5**	**14%**	**20.0**	**15.8**	**23.9**	**26%**

	31 Dec 2018	**31 Dec 2017**	**Change YoY**	
Net loans to customers	1,950.4	2,026.3	-75.9	-4%
Gross loans to customers	2,061.0	2,188.6	-127.6	-6%
Corporate	1,854.4	1,939.3	-84.9	-4%
Key/Mid/Small Corporate	1,643.2	1,770.7	-127.5	-7%
Interest rate on Key/Mid/Small Corporate loans	*1.88%*	*2.03%*	*-0.15 p.p.*	
Restructuring and Workout	211.2	168.6	42.6	25%
State	206.1	248.7	-42.6	-17%
Interest rate on State loans	*1.69%*	*1.51%*	*0.19 p.p.*	
Deposits from customers	1,120.8	1,080.9	39.9	4%
Interest rate on deposits	*0.07%*	*0.09%*	*-0.02 p.p.*	
Non-performing loans (gross)	179.7	262.8	-83.1	-32%

Cost of risk (in bps)	-135	-104	-30
CIR	56.0%	59.0%	-2.9 p.p.
Interest margin	2.61%	2.29%	0.31 p.p.

The Bank is the leading bank servicing corporate clients in Slovenia with by far the largest client base and has a 18.2% market share in corporate loans (2017: 20.8%), and 24.5% (2017: 25.6%) in guarantees and letters of credit. The Bank is increasingly focused on mid-corporate and small enterprises segment, given low yields in large corporate segment.

The Bank aims to provide its clients with creative, targeted and relevant solutions to help secure primary relationships with existing clients, as well to enable it to identify, address and attract new clients. The Bank is available to its clients via various channels, especially with on-site advisory in the Bank's or company's permises, while less complex transactions can be handled with the use of e- and m-banking applications depending on the information or product the client is interested in.

To simplify and ease everyday banking for small enterprises, the Bank prepared a new package of offers for legal entities - NLB Business Start Basic, NLB Business Start Mobile, NLB Business Start Advanced, NLB Business Package Basic, NLB Business Package Comprehensive and NLB Business Package Non-profit, combining the most common daily banking products tailored to different client segments' needs. Legal entities, entrepreneurs and private individuals can now submit the order to open an NLB Business Account or any of the packages online, and the rest is arranged by NLB client advisors.

The Bank is not only well acquainted with the business environment, it is also aware that the first steps in the entrepreneurial world are the toughest, therefore the Bank again participates in the "Štartaj Slovenija" project (Start it up Slovenia). For all new entrepreneurs and those who are still thinking about it, content was included on the Bank's web page focusing on various aspects of entrepreneurship.

A further digitalisation push can also be seen in Klikpro, which now enables Face ID login and integrated video call and chat functionalities for 24/7 support. The explosive 56.7% YoY increase in Klikpro users (17,627 users by the end of 2018) brings the popularity of the platform close to half of all corporate clients. The Bank is the first bank in Slovenia to implement 24/7 availability of financing with Express Loan and Express Overdraft in an amount of up to EUR 15,000 where the approval process is completed within minutes.

In 2018, the Bank's NLB Pay mobile wallet application was launched, enabling clients contactless, simple, quick and safe payments with the NLB Business MasterCard and NLB Business Maestro cards at contactless POS (in Slovenia and abroad). NLB Pay also enables payments by installments.

International Corporate Business Opportunities in SEE

The Bank is committed to the Western Balkans and is striving to become the regional champion. This was also proved by the organisation of the NLB Business Forum, which connected customers (existing and potential) and the Group banks from the region to explore potential opportunities for Slovenian companies for their growth and investment in infrastructure projects.

After the partial lifting of the restrictions of the European Commission, the Bank was able to explore opportunities of international financing after several years, with primary focus on the SEE region. The first such business was concluded in cooperation between the Bank and NLB Banka, Beograd at the end of 2018 in Serbia with the participation in the syndicated loan. Further opportunities will be explored in the future, utilizing strong local presence of the Group in the SEE region and the newly found ability of the Bank to participate in the international financing.

To cater to the Bank’s clients operating in the region, all banking members of the Group jointly launched the Group payment offer for international payments of customers (legal entities) operating within the Group.

Investment Banking

Table 6: Key financials of Investment banking and custody services of Slovenia[8]

in million EUR consolidated	Investment Banking							
	2018	2017	Change YoY		Q4 2018	Q3 2018	Q4 2017	Change QoQ
Total net operating income	**8.5**	**8.8**	-0.3	-3%	**1.8**	**2.3**	**2.0**	**-20%**
Total costs	-6.1	-5.8	-0.3	-5%	-1.6	-1.5	-1.5	-10%
Result before tax	**2.4**	**3.0**	-0.6	**-20%**	**0.3**	**0.8**	**0.7**	**-66%**

Total net operating income decreased YoY; fewer concluded interest rate hedge deals and consequently revenue decrease in treasury sales were compensated by revenue growth in corporate finances, revenue growth of brokerage fees, and revenue growth of custody fees.

The Bank, together with international banking syndicate, succesfully managed and completed its first hedge coordination project. Additionally, the bank assisted companies to broaden funding base and arranged the issuance of both long-term and short-term instruments in the total of EUR 62 million on debt capital markets. At the end of 2018, the total asset value under custody exceeded EUR 15.9 billion, representing a 8.23% increase YoY.

Notes:

[8] In 2018 different methodology of income distribution between segments Financial markets in Slovenia and Investment banking was adopted; all data for previous periods are adjusted to new methotology.

Strategic Foreign Markets

Financial Highlights

- Profit before tax amounted to EUR 99.7 million, and includes non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje, in the positive amount of EUR 12.2 million (effect on net non-interest income). In contrast, in 2017 the profit was positively affected by the release of impairments and provisions in the amount of EUR 7.6 million (release of pool provisions in Q1 2017).
- Despite the competitive market environment and high pressure on interest rates, net interest income increased by 4% YoY.
- Strong growth was recorded in net non-interest income (36% YoY), mostly due to non-recurring income. Moderate growth was recorded in fee and commission income (4% YoY).
- The cost of risk was positive due to establishment of impairments and provisions.
- Growth of 10% YoY in loan balances and growth of 12% YoY in deposits volume.

Business Highlights

- All six subsidiary banks produced the highest net profit before impairments and provisions ever (EUR 114.0 million).
- 100% of the shares of NLB Nov penziski fond, Skopje were sold.
- The subsidiary banks received several awards.

Table 7: Key financials of Strategic foreign markets

in EUR million consolidated	Strategic Foreign Markets							
	2018	2017	Change YoY		Q4 2018	Q3 2018	Q4 2017	Change QoQ
Net interest income	150.1	144.6	5.5	4%	39.6	38.6	36.4	2%
Net non-interest income	63.9	47.1	16.8	36%	13.6	13.1	13.3	4%
Total net operating income	**214.0**	**191.7**	**22.3**	**12%**	**53.1**	**51.7**	**49.7**	**3%**
Total costs	-100.0	-97.2	-2.8	-3%	-26.1	-24.7	-26.6	-6%
Result before impairments and provisions	**114.0**	**94.5**	**19.6**	**21%**	**27.0**	**27.0**	**23.0**	**0%**
o/w non-recurring items	12.2	-	-	-	-	-	-	-
Impairments and provisions	-14.3	7.6	-21.8	-	-10.9	-1.9	-9.3	-
Result before tax	**99.7**	**102.0**	**-2.3**	**-2%**	**16.0**	**25.1**	**13.7**	**-36%**
o/w Result of minority shareholders	7.9	8.2	-0.3	-4%	1.2	2.2	1.0	-44%

	31 Dec 2018	31 Dec 2017	Change YoY	
Net loans to customers	2,718.0	2,393.5	324.5	14%
Gross loans to customers	2,932.7	2,660.6	272.1	10%
Retail	1,438.1	1,276.2	161.9	13%
Interest rate on retail loans	*7.09%*	*7.50%*	*-0.42 p.p.*	
Corporate	1,405.0	1,277.9	127.1	10%
Interest rate on corporate loans	*4.92%*	*5.41%*	*-0.49 p.p.*	
State	89.6	106.5	-16.9	-16%
Interest rate on state loans	*4.33%*	*4.82%*	*-0.50 p.p.*	
Deposits from customers	3,438.1	3,078.3	359.8	12%
Interest rate on deposits	*0.61%*	*0.86%*	*-0.25 p.p.*	
Non-performing loans (gross)	219.9	252.0	-32.1	-13%

Cost of risk (in bps)	35	-39	74
CIR normalized	46.7%	50.7%	-4.0 p.p.
Interest margin	3.85%	4.04%	-0.19 p.p.

Figure 15: Net profit of strategic NLB Group banks (on standalone basis) (in EUR million)

The core part of the Group in foreign markets consists of six banks and two SPVs (for NPLs transferred from subsidiary banks). Market shares of subsidiary banks exceeded 10% in four out of six markets. Despite a competitive market environment, 2018 was successful for all six banks of the Group in foreign markets posting solid net profits. Strategic foreign members' contribution to the Group profit before tax was 39% (2017: 43%). All six banks produced the highest net profit before impairments and provisions ever (EUR 114.0 million). This is a result of strong loan production, especially in the retail segment, improved cost efficiency, favourable cost of risk developments, commitments to client centric digital solutions and talent management.

The results created a solid and sound basis to focus on new business opportunities, continue with client focus digitalisation activities and invest in employee development. Regulatory framework has changed in most of the countries to gradually approach the EU banking rules.

Subsidiary banks remain committed to organic growth strategy, and boost business operations and service excellence. Continious leveraging on synergies is planned in the areas of client centricity, the introduction of modern technologies and digitalisation, increased operational excellence and talent management. With the partial privatization of the Bank and consequently expiry of certain commitments towards the EC which restrained the Group members in certain areas of business, subsidiary banks will be in a position to take up new opportunities in the regional banking sector.

The subsidiary banks received several business-related awards in 2018. Among others for the best bank (NLB Banka, Skopje), the highest ROE and ROA (NLB Banka, Banja Luka), most desirable employer in the financial sector (NLB Banka, Sarajevo) on a local market, for the most active issuing bank for guarantees in Kosovo (NLB Banka Prishtina) and contribution to the development of agribusiness (NLB Banka, Beograd). In the domain of socially responsible business, the banks continued to focus on supporting humanitarian campaigns, health improving and environmental projects, and initiatives in sports.

Financial Markets in Slovenia[9]

Financial Highlights

- Profit before tax amounted to EUR 24.0 million, a decrease of 1% YoY.
- Net interest income decreased by 1% YoY due to decreasing yields in the securities portfolio (the maturity of some high yielding assets and reinvestments made in still low yielding environment) and due to higher expenses resulting from the increased level of excess liquidity.
- Negative net non-interest income, EUR 0.2 million lower YoY, mostly as a result of early sale of French bonds in 2017 (EUR 1.8 million) and EUR 1.3 million lower expenses for SRF in 2018 (EUR 0.4 million).

Business Highlights

- The Bank acted as one of the joint lead managers in the EUR 1.5 billion, a 10-year benchmark bond issuance for the Republic of Slovenia.

Table 8: Key financials of Financial markets in Slovenia[10]

in million EUR consolidated	Financial Markets in Slovenia							
	2018	2017	Change YoY		Q4 2018	Q3 2018	Q4 2017	Change QoQ
Net interest income	31.4	31.9	-0.4	-1%	6.3	7.6	8.2	-17%
Net non-interest income	-1.1	-0.9	-0.2	-26%	-1.3	0.5	0.2	-
Total net operating income	**30.3**	**31.0**	**-0.7**	**-2%**	**5.0**	**8.0**	**8.4**	**-37%**
Total costs	-6.5	-6.7	0.1	2%	-1.6	-1.6	-1.6	-3%
Result before impairments and provisions	**23.8**	**24.3**	**-0.5**	**-2%**	**3.4**	**6.4**	**6.8**	**-47%**
Impairments and provisions	0.2	0.0	0.3	-	0.1	0.1	0.0	-19%
Result before tax	**24.0**	**24.3**	**-0.3**	**-1%**	**3.5**	**6.6**	**6.8**	**-47%**

	31 Dec 2018	31 Dec 2017	Change YoY	
Balances with Central banks	575.0	350.8	224.2	64%
Banking book securities	2,755.2	2,337.4	417.9	18%
Interest rate on banking book securities	*1.25%*	*1.40%*	*-0.16 p.p.*	
Wholesale funding	244.1	260.7	-16.6	-6%
Interest rate on wholesale funding	*0.48%*	*0.51%*	*-0.03 p.p.*	

The segment's main mission continued to be Group's activities on international financial markets, including treasury operations. In the chalenging environment of low interest rate on financial markets the major focus was on prudent liquidity reserves management and fulfilling regulatory requirements.

Notes:

[9] Investment banking as a part of Financial markets in Slovenia that includes brokerage, custody of securities, as well as financial consulting is represented as a separate segment within Corporate and Investment banking in Slovenia.
[10] In 2018 different methodology of income distribution between segments Financial markets in Slovenia and Investment banking was adopted; all data for previous periods are adjusted to new methotology.

Non-Core Markets and Activities

Financial Highlights

- The profit before tax was EUR 8.2 million which is 74% lower YoY due to reduction of non-core portfolio and consequently reduction of net interest and net non-interest income.
- The cost base was reduced by 16% YoY to EUR 18.2 million due to the continued divestment process.
- Segment assets decreased by 33% YoY.

Business Highlights

- Continued controlled wind-down of the remaining Non-core segment, including credit business with foreign clients, operations of non-strategic Group members, the Bank's equity participations, as well as active management of real-estate assets (contributing to the reduction of the Group's NPLs).
- Positive result for the second year in a row.
- Non-strategic subsidiaries continued with the collections of claims, leading to a further decrease of the Group's non-core assets.
- Liquidation proceeding for NLB Propria d.o.o. was finished and the company was deleted from the companies register.

Table 9: Key financials of Non-core markets and activities

in EUR million consolidated	Non-core Markets and Activities							
	2018	**2017**	**Change YoY**		**Q4 2018**	**Q3 2018**	**Q4 2017**	**Change QoQ**
Net interest income	9.3	16.8	-7.5	-44%	1.9	2.1	4.2	-11%
Net non-interest income	5.2	23.2	-18.0	-78%	-0.7	1.7	1.8	-
Total net operating income	**14.5**	**40.0**	**-25.5**	**-64%**	**1.1**	**3.8**	**6.0**	**-70%**
Total costs	-18.2	-21.7	3.5	16%	-4.4	-4.4	-5.4	1%
Result before impairments and provisions	**-3.7**	**18.2**	**-22.0**	**-**	**-3.3**	**-0.6**	**0.6**	**-**
o/w non-recurring items	-	10.7	-	-	-	-	-	-
Impairments and provisions	11.9	12.9	-1.0	-8%	2.7	1.5	-0.1	81%
Result before tax	**8.2**	**31.2**	**-22.9**	**-74%**	**-0.6**	**0.9**	**0.5**	**-**

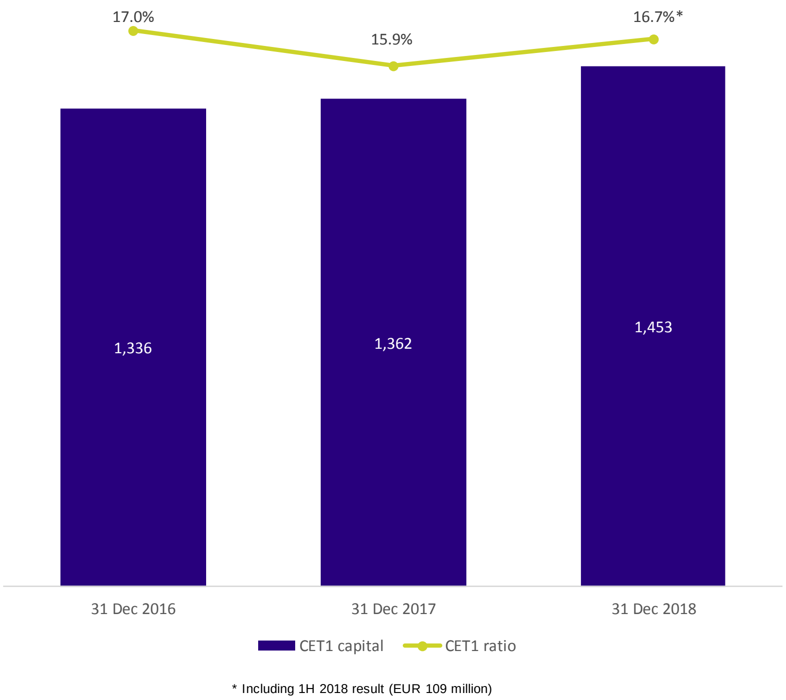
	31 Dec 2018	**31 Dec 2017**	**Change YoY**	
Segment assets	**263.7**	**391.3**	**-127.6**	**-33%**
Net loans to customers	160.9	269.9	-109.0	-40%
Gross loans to customers	288.6	448.5	-159.9	-36%
Investment property and property & equipment received for repayment of loans	68.5	81.6	-13.0	-16%
Other assets	34.3	39.9	-5.6	-14%
Deposits from customers	9.6	10.2	-0.6	-6%
Non-performing loans (gross)	179.7	279.7	-100.0	-36%
Cost of risk (in bps)	-705	-493	-212	
CIR normalized	125.5%	74.2%	31.4 p.p.	

The Non-core segment main objective remained rigorous wind-down of all non-core portfolios and consequent reduction of costs. Several individual exposures to clients in different foreign markets were resolved, thereby contributing to a reduction of NPL and off balance sheet exposure.

Capital and Liquidity

Capital Adequacy

Figure 16: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)



In 2018, OCR amounted to 13.375% for the Bank on the consolidated level, consisting of:

- 11.50% TSCR (8% Pillar 1 requirement and 3.50% Pillar 2 requirement); and
- 1.875% CBR (1.875% Capital conservation buffer and 0% Countercyclical buffer).

The applicable OCR requirement for 2018 has been raised to 13.375%, due solely to the gradual phase-in of the capital conservation buffer as prescribed by law.

In 2018, the capital of the Bank and the Group consists merely of the components of top quality CET1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios are the same. The Group's capital adequacy in terms of CET 1 was within the stated risk appetite limit and above the EU average as published by the EBA.

At the end of 2018, the capital ratio for the Group stood at 16.7% (or 0.8 percentage points higher than at the end of 2017), and for the Bank at 24.1% (or 2.3 percentage points higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to inclusion of first six months 2018 result (EUR 108.8 million for the Group), lower retained earnings (EUR - 81.5 million) as part of dividend payout, the inclusion of the positive effect from the implementation of IFRS 9 (EUR 43.8 million for the Group and EUR 27.7 million for the Bank), and the conclusion of transitional arrangements relevant until the end of 2017.

Table 10: Total risk exposure (in EUR million) for NLB Group

	31 Dec 2018	31 Dec 2017	31 Dec 2016	Change YoY
Total risk exposure amount (RWA)	**8,678**	**8,546**	**7,862**	**1.5%**
RWA for credit risk	7,180	7,096	6,865	1.2%
RWA for market risks + CVA	544	501	105	8.8%
RWA for operational risk	953	949	893	0.5%

The RWA for credit risk increased by EUR 83.3 million, mainly due to loan growth in Retail (EUR 244.2 million) and in Corporate (EUR 158.7 million) as a consequence of increased volume of business. The increase in RWA for market risks and credit value adjustments (CVA) (EUR 43.9 million) is mainly the result of more open positions in domestic currencies of non-euro subsidiary banks. The increase in the RWA for operating risks (EUR 4.0 million) arises from the higher three-year average of income, which represents the basis for the calculation.

Liquidity

The liquidity position of the Group remains strong, with a LTD ratio (net) of 68.3%, meeting liquidity indicators high above the regulatory requirements, and confirming the low liquidity risk tolerance of the Group.

Liquid assets of the Group amounted to EUR 5.17 billion (40.6% of total assets; 2017 year-end: EUR 5.45 billion, 44.6% of total assets), of which EUR 0.43 billion (2017 year-end: EUR 0.43 billion) were encumbered for operational and regulatory purposes. The main change is tied to the volume of ECB eligible credit claims that decreased due to the modification in ECB eligibility criterion adopted on 7 February 2018 in ECB Guideline (EU) 2018/570.

Figure 17: NLB Group liquid assets structure reflects a robust liquidity position (in EUR million)

The banking book securities portfolio, which represented 63.4% of the Group's liquid assets (2017 year-end: 53.4%), was dispersed appropriately in relation to issuers, countries, and remaining maturity, with the aim of managing liquidity and interest risk.

Driven by the low interest rate environment, the main change in the funding structure of the Group was the continued transformation of term-to-sight customer deposits, representing the key funding base. The share of sight customer deposits equaled 65.0% of total assets (2017 year-end: 59.9%).

Risk Management

The Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group. Business and operating environment, relevant for the Group operations, is changing with trends such as changing customer behaviour, emerging new technologies and competitors, increasing new regulatory requirements. Considering that risk management is continuously adapting with the aim of detecting and managing new potential emerging risks.

The main risk principles are integrated into the Group Risk Strategy, designed in accordance with business strategy and risk appetite orientations. Special focus is put on the inclusion of risk analysis into the decision-making process at strategic and operating levels, diversification in order to avoid large concentration, optimal capital usage and its allocation, appropriate risk-adjusted pricing, regular education/trainings at all levels of management and the assurance of overall compliance with internal policies/rules and relevant regulations.

Risk management focuses on managing and mitigating risks in line with the Group's Risk Appetite and Risk Strategy, representing the foundation of the Group's Risk management framework. Within these frameworks the Group monitors a range of risk metrics in order to make sure the Group's risk profile is in line with its Risk Appetite. In addition, the Group is constantly enhancing its risk management system where consistent incorporation of ICAAP, ILAAP, Recovery plan, and other internal stress-testing capabilities into risk management system is essential. Moreover, in 2018 ICAAP process was substantially upgraded in accordance with the newly published ECB guidelines, including its stronger integration into overall risk management system in order to provide proactive support for informed decision-making.

On 30 April 2018, the Group received the BoS Decree on the determination of the MREL requirement which is based on the Multiple Point of Entry (MPE) approach. MREL is determined in the percent of TLOF at the sub-consolidated level of the NLB Resolution Group (NLB d.d. and non-core part of the Group). The MREL requirement was determined to be 17.40% of TLOF and must be attained by 31 March 2019. Fulfilment of MREL requirement is part of NLB Group Risk Appetite.

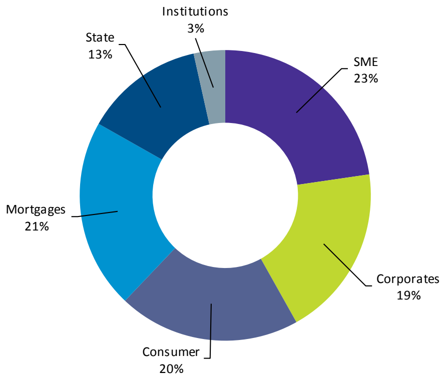
One of the key aims of Risk Management is to preserve a prudent level of the Group's capital adequacy. The Group monitors its capital adequacy at the Group and individual subsidiary bank level in accordance with the Risk Appetite, incorporating also the established ICAAP process under normal conditions and stressed conditions. As at 31 December 2018, the Group had a strong level of capital adequacy, CET 1 ratio of 16.7% as highest quality capital, which is above the EU average as published by the EBA. In line with SREP, CET 1 and the total capital ratio of the Group already meet fully-loaded regulatory requirements applicable for the year 2019.

Maintaining a solid level and structure of liquidity represents the next very important risk target. The Group holds a very strong liquidity position at the Group and individual subsidiary bank level, which is well above the risk appetite with the LCR of 361% and unencumbered eligible reserves in the amount of EUR 4,742 million. Even if the stress scenario were to occur, the Group has sufficiently high liquidity reserves in place in the form of placements at the ECB, prime debt securities, and money market placements. The main funding base of the Group at the Group and individual subsidiary bank level predominately entails customer deposits, namely in the retail segment, representing a very stable and constantly growing base. A very comfortable level of LTD at 68.3% gives the Group the potential for further customer loan placements.

Preserving high credit portfolio quality represents the most important key aim, with a focus on the quality of new placements leading to a diversified portfolio of customers. Great emphasis is also placed on intensive and proactive handling of problematic customers, changes in the credit process and early warning system for detecting increased credit risk. The restructuring approaches are focused on the early detection of clients with potential financial difficulties and their proactive treatment. Moreover, the Group is constantly developing a wide range of advanced approaches supported by mathematical and statistical models in the area of credit risk assessment in line with best banking practises to further enhance existing risk management tools, while at the same time enabling faster responsiveness towards clients.

NLB Group's lending strategy focuses on its core markets of retail, SME and selected corporate business activities. On the Slovenian market, the focus is on providing appropriate solutions for retail, medium-sized, and small enterprise segments, while in the corporate segment the Bank established cooperation with selected corporate clients (through different types of lending/investments instruments). All other banking members in SEE region, where the Group is present, are universal banks, mainly focusing on the retail segment and segment of medium-sized and small enterprises. Their primary goal is to provide comprehensive services to clients by taking into account prudent risk management principles. The current structure of credit portfolio (gross loans) consists of 41% of retail clients, 19% of large corporate clients, 23% of SMEs and micro companies, while the remainder of the portfolio entails other liquid assets. There is no large concentration in any specific industry or client segment.

Figure 18: NLB Group structure of the credit portfolio (gross loans and advances) by segment [11]



The Group is actively present on the market, financing existing and new creditworthy clients. The successful deleveraging of companies and new investment projects in Slovenia have had a positive influence on the approval of new loans. In Retail, especially in the consumer loan segment, positive trends have been recorded throughout the region, as a result of clients' greater trust in economic developments and rising consumption alongside with the related recovery in the real estate market. In 2018, efforts led to cumulatively very low new NPLs formation in the amount of EUR 64 million, of which only EUR 19 million come from new business, which represents 0.2% of the

Notes:

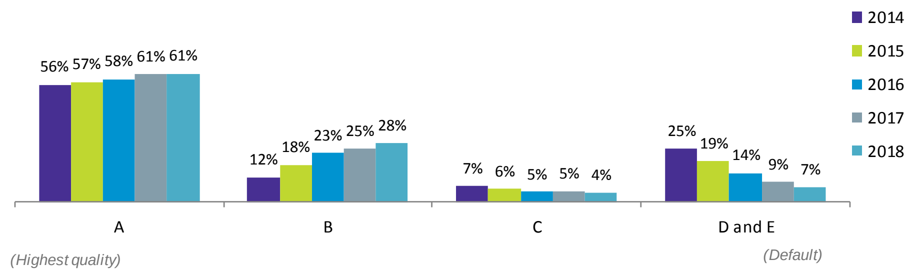
[11] Gross exposures include also reserves at Central Banks and demand deposits at banks.

total portfolio. In addition, favourable macroeconomic environment across the region resulted in negative cost of risk, whose evolution during the year was otherwise very stable and below mid-term strategic orientations.

Implementation of IFRS 9 strengthened the Group's capital basis, arising mainly from collective impairments due to very favourable macroeconomic trends and improved quality of credit portfolio. The majority of the Group's loan portfolio is classified in Stage 1 (86.7%), then 6.4% in Stage 2 and 6.4% in Stage 3. Loans in stages from 1 to 3 are measured at amortized cost, while the remaining minor part (0.5%) represents fair value loans through P&L (FVPL). The portfolio quality in 2018 was very stable with increasing Stage 1 exposures and a reduction of NPL loans, which are below the Slovene average. The majority of increase in Stage 2 occurred due to NPL upgrades.

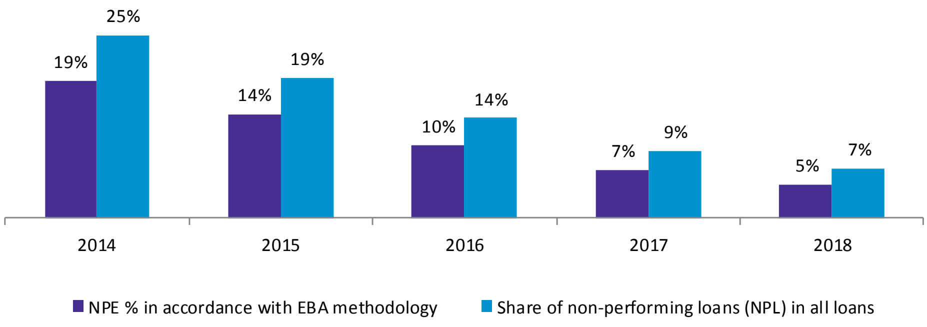
The Group strives to ensure the best possible collateral for long-term loans, namely mortgages in most cases. Thus, the mortgaging of real-estate is the most frequent form of loan collateral of corporate and retail clients. In corporate loans, it is followed by government and corporate guarantees. In retail loans other most frequent loan collateral types are insurance companies and guarantors.

Figure 19: Structure of NLB Group credit portfolio by client credit ratings (in EUR million) as at year end



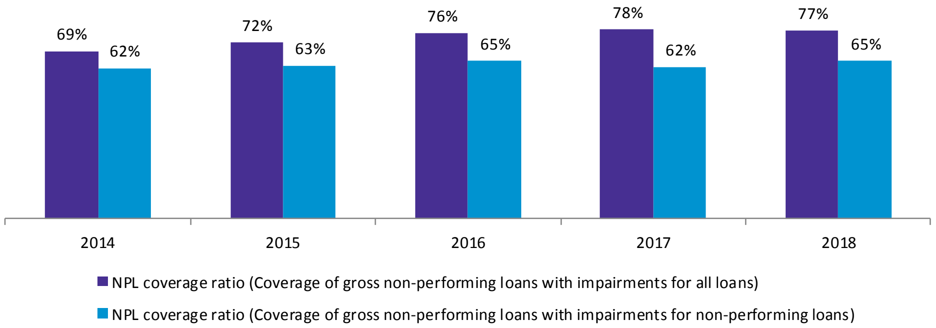
Reduction of NPLs at the Group level remained a key focus in 2018. Precisely set targets in the Group's NPL Strategy, active workout and macroeconomic recovery supported a further substantial reduction in the volume of the non-performing portfolio despite falling loan volumes. The existing non-performing credit portfolio stock in the Group was reduced from EUR 844 million to EUR 622 million YoY, where the reduction exceeded the set targets. The combined result of all effects resulted in decreased share of NPLs from 9.2% to 6.9% YoY, while the internationally more comparable NPE ratio based on EBA methodology was reduced from 6.7% to 4.7% YoY. Active approach to NPL management gives strong emphasis on restructuring, with increasing use of other active NPL management tools such as foreclosure of collateral, sale of claims, active marketing and sale of pledged assets.

Figure 20: NLB Group NPE (NPE% by the EBA) and NPL ratio



An important Group strength is the NPL coverage ratio 1, which remains high at 77.1%. Further, the Group's NPL coverage ratio 2 stands at 64.6%, which is well above the EU average as published by the EBA (45.7% for Q3 2018). As such, it enables a further reduction in NPLs without significantly influencing the cost of risk in the next years. Moreover, it proves that the past reduction was done in average without negative impact to profit and loss account.

Figure 21: NLB Group Coverage ratio 1[12] and NLB Group NPL Coverage ratio 2[13]



When considering market risks, the Group pursues low risk appetite for market risk in trading book. Exposure towards trading (according to the CRR) is allowed only in the Bank as the main entity of the Group, and is very limited. Market risks predominately arise from the core business activities, with the aim of supporting banking book and the liquidity reserves portfolio activities. Moreover, the Bank maintains a small trading portfolio, mainly for monitoring market signals in the global markets. As such it does not represent a material risk to the Group's operations and its tolerance for interest rate and credit spread risk is very low.

The Group operates its main business activities in euros, while the subsidiary banks beside their domestic currencies also operate in euros, which is the reporting currency of the Group. The Group's net open FX position

Notes:

[12] NPL coverage ratio 1 - The coverage of the gross NPL portfolio with impairments on the entire loan portfolio.
[13] NPL coverage ratio 2 - The coverage of the gross NPL portfolio with impairments on the NPL portfolio.

from transactional risk is low and amounts to less than 2% of capital. Regarding structural FX positions on a consolidated level, assets and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the balance sheet date. FX differences of non-euro assets and liabilities are recognized in the other comprehensive income, and therefore affect shareholder's equity and CET 1 capital. Group ALM employs different strategies to manage foreign currency exposure.

The Group's exposure to interest rate risk is moderate and arises mainly from banking book positions. In the last three years the Group recorded growth of fixed interest rate loans and long-term banking book securities on the assets side and transformation of deposits from term to sight as a consequence of low interest rate environment and excessive liquidity.

The Group manages interest rate positions and stabilizes its interest rate margin primarily with the pricing policy and fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose purpose is to maintain adequate liquidity reserves and at the same time it also contributes to the stability of the interest rate margin. In addition the Group also uses plain vanilla derivative financial instruments for interest rate risk management, such as interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements.

Net interest income sensitivity of the Group would amount to EUR 13.1 million in case of market interest rates increase by 50 bps, while in the case of decrease exposure would be lower due to zero floor clauses included in the loan contracts. From economic perspective basis point value (BPV) sensitivity of 200 bps equals 7.0% of the Group's capital.

In the area of operational risk management, where the Group has established robust operational risk culture, the main qualitative activities refer to the reporting of loss events and identification, assessment and management of operational risks. On this basis constant improvement of control activities, processes and/or organisation is performed. In 2018 additional efforts were made with regard to proactive mitigation, prevention and minimisation of potential damage in the future. Special attention was dedicated to the stress-testing system, based on scenario analysis referring to potential high severity, low frequency events and modelling data on loss events. Furthermore, key risk indicators, servicing as an early warning system for the broader field of operational risks (such as human resources, processes, systems and external conditions), were additionally enhanced. Their upgrade facilitates more detailed information for a more effective planning of measures and operational risk management, improves the existing internal controls and enables reacting on time when necessary.

In addition, the Group was also diligently managing other, non-financial risks as a part of the ICAAP process, referring to the Group's business model or arising from other external circumstances. Uniform stress testing framework, which includes internally-developed models, stress scenarios and sensitivity analysis, was additionally enhanced in connection with relevant expected macroeconomic factors and IFRS 9 principles. Such stress testing framework is subject to regular internal validations and back testing procedures.

Financial Statements

Unaudited Annual Financial Statements of NLB Group and NLB

Income Statement

in EUR thousand

	NLB Group		NLB	
	2018	2017	2018	2017
Interest income, using the effective interest method	351,773	356,932	174,296	181,454
Interest income, not using the effective interest method	7,084	6,801	7,135	6,801
Interest and similar income	358,857	363,733	181,431	188,255
Interest and similar expense	(45,947)	(54,417)	(23,399)	(29,466)
Net interest income	**312,910**	**309,316**	**158,032**	**158,789**
Dividend income	118	179	49,692	58,062
Fee and commission income	218,559	207,908	132,677	127,749
Fee and commission expense	(57,944)	(52,490)	(32,514)	(29,240)
Net fee and commission income	**160,615**	**155,418**	**100,163**	**98,509**
Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss	45	12,242	(365)	11,711
Gains less losses from financial assets and liabilities held for trading	9,500	13,067	2,885	7,065
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4,036	-	5,284	-
Gains less losses from financial assets and liabilities designated at fair value through profit or loss	(56)	75	(56)	-
Fair value adjustments in hedge accounting	472	(813)	472	(813)
Foreign exchange translation gains less losses	745	2,149	218	(1,007)
Gains less losses on derecognition of assets	2,644	1,748	123	249
Other operating income	18,680	26,424	9,768	12,172
Other operating expenses	(28,268)	(29,411)	(14,637)	(15,249)
Administrative expenses	(261,432)	(256,907)	(161,439)	(157,877)
Depreciation and amortisation	(27,224)	(27,802)	(17,531)	(18,010)
Provisions for credit losses	3,156	3,460	1,157	2,296
Provisions for other liabilities and charges	(1,512)	(8,711)	2,258	(9,640)
Impairment of financial assets	27,047	39,988	28,659	39,181
Impairment of non-financial assets	(5,414)	(5,207)	981	(1,173)
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	5,446	4,782	-	-
Gains less losses from non-current assets held for sale	11,828	(2,686)	11,822	610
Profit before income tax	**233,336**	**237,311**	**177,486**	**184,875**
Income tax	(21,759)	(3,997)	(12,187)	4,219
Profit for the year	**211,577**	**233,314**	**165,299**	**189,094**
Attributable to owners of the parent	203,647	225,069	165,299	189,094
Attributable to non-controlling interests	7,930	8,245	-	-
Earnings per share/diluted earnings per share (in EUR per share)	10.2	11.3	8.3	9.5

Statement of Comprehensive Income

in EUR thousand

	NLB Group		NLB	
	2018	2017	2018	2017
Net profit for the year after tax	**211,577**	**233,314**	**165,299**	**189,094**
Other comprehensive income after tax	**(14,337)**	**(3,100)**	**(8,361)**	**(8,882)**
Items that will not be reclassified to income statement				
Actuarial gains/(losses) on defined benefit pensions plans	**1,166**	**(810)**	**884**	**(950)**
Fair value changes of equity instruments measured at fair value through other comprehensive income	**1,015**	**-**	**(10)**	**-**
Share of other comprehensive income/(losses) of entities accounted for using the equity method	**(1,120)**	**(11)**	**-**	**-**
Income tax relating to components of other comprehensive income	**141**	**89**	**(73)**	**90**
Items that may be reclassified subsequently to income statement				
Foreign currency translation	**(1,128)**	**3,035**	**-**	**-**
Translation gains/(losses) taken to equity	(1,128)	3,035	-	-
Debt instruments measured at fair value through other comprehensive income	**(12,343)**	**-**	**(11,311)**	**-**
Valuation gains/(losses) taken to equity	(12,073)	-	(11,371)	-
Transferred to income statement	(270)	-	60	-
Available-for-sale financial assets (IAS 39)	**-**	**(7,261)**	**-**	**(9,904)**
Valuation gains/(losses) taken to equity	-	4,955	-	1,781
Transferred to profit or loss	-	(12,216)	-	(11,685)
Share of other comprehensive income/(losses) of entities accounted for using the equity method	**(5,375)**	**236**	**-**	**-**
Income tax relating to components of other comprehensive income	**3,307**	**1,622**	**2,149**	**1,882**
Total comprehensive income for the year after tax	**197,240**	**230,214**	**156,938**	**180,212**
Attributable to owners of the parent	189,430	221,852	156,938	180,212
Attributable to non-controlling interests	7,810	8,362	-	-

Statement of Financial Position

in EUR thousand

	NLB Group			NLB		
	31 Dec 2018	1 Jan 2018	31 Dec 2017	31 Dec 2018	1 Jan 2018	31 Dec 2017
Cash, cash balances at central banks, and other demand deposits at banks	1,588,349	1,255,824	1,256,481	795,102	569,943	570,010
Financial assets held for trading	63,609	72,189	72,189	63,611	72,180	72,180
Non-trading financial assets mandatorily at fair value through profit or loss	32,389	32,913	-	29,141	32,748	-
Financial assets designated at fair value through profit or loss	-	-	5,003	-	-	634
Financial assets measured at fair value through other comprehensive income	1,898,079	1,654,856	-	1,528,314	1,283,767	-
Financial assets measured at amortised cost						
- debt securities	1,428,962	1,301,413	-	1,274,978	1,178,088	-
- loans and advances to banks	118,696	509,970	-	110,297	461,830	-
- loans and advances to customers	7,124,633	6,956,362	-	4,451,477	4,594,286	-
- other financial assets	75,171	67,046	-	42,741	38,915	-
Available-for-sale financial assets (IAS 39)	-	-	2,276,493	-	-	1,777,762
Loans and advances (IAS 39)		-			-	
- debt securities	-	-	82,133	-	-	82,133
- loans and advances to banks	-	-	510,107	-	-	462,322
- loans and advances to customers	-	-	6,912,333	-	-	4,587,477
- other financial assets	-	-	66,077	-	-	38,389
Held-to-maturity financial assets (IAS 39)	-	-	609,712	-	-	609,712
Derivatives - hedge accounting	417	1,188	1,188	417	1,188	1,188
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	719	719	2,517	719	719
Investments in subsidiaries	-	-	-	350,733	349,945	349,945
Investments in associates and joint ventures	37,147	43,765	43,765	4,777	6,932	6,932
Tangible assets						
Property and equipment	177,404	188,355	188,355	86,934	87,051	87,051
Investment property	58,644	51,838	51,838	12,026	9,257	9,257
Intangible assets	34,968	34,974	34,974	23,391	23,911	23,911
Current income tax assets	877	599	2,795	-	-	2,196
Deferred income tax assets	22,847	19,745	18,603	22,234	20,318	19,758
Other assets	70,971	93,349	93,349	10,637	8,692	8,692
Non-current assets and disposal group classified as held for sale	4,349	11,631	11,631	1,720	2,564	2,564
Total assets	**12,740,029**	**12,296,736**	**12,237,745**	**8,811,047**	**8,742,334**	**8,712,832**
Trading liabilities	12,300	9,502	9,502	12,256	9,398	9,398
Financial liabilities measured at fair value through profit or loss	4,190	5,815	635	3,981	5,166	635
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	26,775	40,602	40,602	48,903	72,072	72,072
- borrowings from banks and central banks	258,423	279,616	279,616	244,133	260,747	260,747
- due to customers	10,464,017	9,878,378	9,878,378	7,033,409	6,810,967	6,810,967
- borrowings from other customers	61,844	74,286	74,286	4,128	5,726	5,726
- subordinated liabilities	15,050	27,350	27,350	-	-	-
- other financial liabilities	100,887	111,019	111,019	62,212	71,534	71,534
Derivatives - hedge accounting	29,474	25,529	25,529	29,474	25,529	25,529
Liabilities of disposal group classified as held for sale	-	440	440	-	-	-
Provisions	80,134	93,989	88,639	56,994	67,232	70,817
Current income tax liabilities	12,152	3,908	2,894	10,784	1,014	-
Deferred income tax liabilities	2,499	2,558	1,096	-	-	-
Other liabilities	14,840	9,467	9,596	9,543	4,057	4,181
Total liabilities	**11,082,585**	**10,562,459**	**10,549,582**	**7,515,817**	**7,333,442**	**7,331,606**
Equity and reserves attributable to owners of the parent						
Share capital	200,000	200,000	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	7,823	24,300	26,752	15,839	24,244	25,699
Profit reserves	13,522	13,522	13,522	13,522	13,522	13,522
Retained earnings	523,493	588,186	541,901	194,491	299,748	270,627
	1,616,216	**1,697,386**	**1,653,553**	**1,295,230**	**1,408,892**	**1,381,226**
Non-controlling interests	41,228	36,891	34,610	-	-	-
Total equity	**1,657,444**	**1,734,277**	**1,688,163**	**1,295,230**	**1,408,892**	**1,381,226**
Total liabilities and equity	**12,740,029**	**12,296,736**	**12,237,745**	**8,811,047**	**8,742,334**	**8,712,832**

Statement of Changes in Equity

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Foreign currency translation reserve	Other capital reserves	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2018	200,000	871,378	47,595	(17,248)	(3,595)	13,522	541,901	1,653,553	34,610	1,688,163
Impact of adopting IFRS 9	-	-	(2,452)	-	-	-	46,285	43,833	2,281	46,114
Restated opening balance under IFRS 9	200,000	871,378	45,143	(17,248)	(3,595)	13,522	588,186	1,697,386	36,891	1,734,277
- Net profit for the year	-	-	-	-	-	-	203,647	203,647	7,930	211,577
- Other comprehensive income	-	-	(14,200)	(1,027)	1,010	-	-	(14,217)	(120)	(14,337)
Total comprehensive income after tax	-	-	(14,200)	(1,027)	1,010	-	203,647	189,430	7,810	197,240
Dividends paid	-	-	-	-	-	-	(270,600)	(270,600)	(3,133)	(273,733)
Transfer of fair value reserve			(2,241)	-	(19)	-	2,260	-	-	-
Other	-	-	-	-	-	-	-	-	(340)	(340)
Balance as at 31 December 2018	**200,000**	**871,378**	**28,702**	**(18,275)**	**(2,604)**	**13,522**	**523,493**	**1,616,216**	**41,228**	**1,657,444**

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Other capital reserves	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2018	200,000	871,378	29,196	(3,497)	13,522	270,627	1,381,226
Impact of adopting IFRS 9	-	-	(1,455)	-	-	29,121	27,666
Restated opening balance under IFRS 9	200,000	871,378	27,741	(3,497)	13,522	299,748	1,408,892
- Net profit for the year	-	-	-	-	-	165,299	165,299
- Other comprehensive income	-	-	(9,077)	716	-	-	(8,361)
Total comprehensive income after tax	-	-	(9,077)	716	-	165,299	156,938
Dividends paid	-	-	-	-	-	(270,600)	(270,600)
Transfer of fair value reserve			(44)	-	-	44	-
Balance as at 31 December 2018	**200,000**	**871,378**	**18,620**	**(2,781)**	**13,522**	**194,491**	**1,295,230**

in EUR thousand

NLB Group	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of available-for-sale financial assets (IAS 39)	Foreign currency translation reserve	Other capital reserves	Profit reserves	Retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2017	200,000	871,378	52,971	(20,139)	(2,863)	13,522	380,444	1,495,313	30,347	1,525,660
- Net profit for the year	-	-	-	-	-	-	225,069	225,069	8,245	233,314
- Other comprehensive income	-	-	(5,376)	2,891	(732)	-	-	(3,217)	117	(3,100)
Total comprehensive income after tax	-	-	(5,376)	2,891	(732)	-	225,069	221,852	8,362	230,214
Dividends paid	-	-	-	-	-	-	(63,780)	(63,780)	(3,752)	(67,532)
Other	-	-	-	-	-	-	168	168	(347)	(179)
Balance as at 31 December 2017	**200,000**	**871,378**	**47,595**	**(17,248)**	**(3,595)**	**13,522**	**541,901**	**1,653,553**	**34,610**	**1,688,163**

in EUR thousand

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of available-for-sale financial assets (IAS 39)	Other capital reserves	Profit reserves	Retained earnings	Total equity
Balance as at 1 January 2017	200,000	871,378	37,218	(2,637)	13,522	145,313	1,264,794
- Net profit for the year	-	-	-	-	-	189,094	189,094
- Other comprehensive income	-	-	(8,022)	(860)	-	-	(8,882)
Total comprehensive income after tax	-	-	(8,022)	(860)	-	189,094	180,212
Dividends paid	-	-	-	-	-	(63,780)	(63,780)
Balance as at 31 December 2017	**200,000**	**871,378**	**29,196**	**(3,497)**	**13,522**	**270,627**	**1,381,226**

Statement of Cash Flows

in EUR thousand

	NLB Group		NLB	
	2018	2017	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	390,588	383,615	216,528	210,292
Interest paid	(46,022)	(60,165)	(23,503)	(33,714)
Dividends received	1,830	4,394	49,692	58,062
Fee and commission receipts	216,603	206,100	130,488	125,760
Fee and commission payments	(62,739)	(56,855)	(32,535)	(29,385)
Realised gains from financial assets and financial liabilities not at fair value through profit or loss	1,201	12,455	791	11,883
Net gains/(losses) from financial assets and liabilities held for trading	10,045	9,421	3,819	3,646
Payments to employees and suppliers	(260,052)	(254,877)	(163,014)	(160,484)
Other income	21,462	27,135	8,252	12,391
Other expenses	(24,758)	(28,775)	(14,843)	(15,075)
Income tax (paid)/received	(12,262)	(10,557)	(335)	(509)
Cash flows from operating activities before changes in operating assets and liabilities	**235,896**	**231,891**	**175,340**	**182,867**
(Increases)/decreases in operating assets	**(85,235)**	**(227,829)**	**209,016**	**45,391**
Net (increase)/decrease in trading assets	10,773	9,001	10,773	9,001
Net (increase)/decrease in financial assets designated at fair value through profit or loss	-	1,801	-	1,487
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss	3,288	-	8,464	-
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	(266,865)	-	(266,349)	-
Net (increase)/decrease in available-for-sale financial assets	-	(228,936)	-	(216,235)
Net (increase)/decrease in loans and receivables measured at amortised cost	148,042	(18,524)	454,865	250,062
Net (increase)/decrease in other assets	19,527	8,829	1,263	1,076
Increases/(decreases) in operating liabilities	**525,311**	**86,953**	**160,647**	**(130,582)**
Net increase/(decrease) in financial liabilities measured at fair value through profit or loss	(691)	(1,487)	(691)	(1,487)
Net increase/(decrease) in deposits and borrowings measured at amortised cost	527,007	361,928	161,004	145,241
Net increase/(decrease) in securities measured at amortised cost	-	(274,200)	-	(274,200)
Net increase/(decrease) in other liabilities	(1,005)	712	334	(136)
Net cash used in operating activities	**675,972**	**91,015**	**545,003**	**97,676**
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts from investing activities	**498,388**	**108,446**	**409,337**	**71,247**
Proceeds from sale of property, equipment, and investment property	5,841	37,274	80	75
Proceeds from sale of subsidiaries	19,629	38	12,526	38
Proceeds from sale of associates and joint ventures	4,600	238	4,600	238
Proceeds from non-current assets held for sale	301	493	158	493
Proceeds from disposals of debt securities measured at amortised cost	468,017	-	391,973	-
Proceeds from disposals of held-to-maturity financial assets	-	70,403	-	70,403
Payments from investing activities	**(634,727)**	**(96,991)**	**(521,369)**	**(99,762)**
Purchase of property, equipment, and investment property	(16,962)	(10,793)	(10,442)	(5,776)
Purchase of intangible assets	(12,671)	(10,801)	(9,931)	(7,605)
Purchase of subsidiaries and increase in subsidiaries' equity	-	(1,596)	(2,100)	(12,580)
Purchase of debt securities measured at amortised cost	(605,094)	-	(498,896)	-
Purchase of held-to-maturity financial assets	-	(73,801)	-	(73,801)
Net cash flows used in investing activities	**(136,339)**	**11,455**	**(112,032)**	**(28,515)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments from financing activities	**(285,708)**	**(67,557)**	**(270,600)**	**(63,780)**
Dividends paid	(273,733)	(67,512)	(270,600)	(63,780)
Repayments of subordinated debt	(11,975)	-	-	-
Other payments related to financing activities	-	(45)	-	-
Net cash from financing activities	**(285,708)**	**(67,557)**	**(270,600)**	**(63,780)**
Effects of exchange rate changes on cash and cash equivalents	(546)	(8,474)	(453)	(13,644)
Net increase/(decrease) in cash and cash equivalents	**253,925**	**34,913**	**162,371**	**5,381**
Cash and cash equivalents at beginning of year	**1,475,714**	**1,449,275**	**662,419**	**670,682**
Cash and cash equivalents at end of year	**1,729,093**	**1,475,714**	**824,337**	**662,419**