NLB Group

The Regional Choice

Annual Report 2018

NLB Group

The Regional Choice

Annual Report 2018

Definitions and glossary of selected terms

ALM	Asset and Liability Management
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing
Articles of Association	Articles of Association of the Bank
BAMC	Bank Asset Management Company
BiH	Bosnia and Hercegovina
BoS	Bank of Slovenia
bps	Basis Points
BRRD	Bank Recovery and Resolution Directive
CAGR	Compound Annual Growth Rate
CAR	Capital Adequacy Ratio
CB	Central Bank
CBR	Combined Buffer Requirement
CEE	Central Eastern Europe
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1
CFO	Chief Financial Officer
CIR	Cost-to-Income Ratio
CMO	Chief Marketing Officer
COO	Chief Operating Officer
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CSR	Corporate Social Responsibility
CVA	Credit Value Adjustments
DGS	Deposit Guarantee Scheme
DTR	Disclosure Guidance and Transparency Rules
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EMU	Economic and Monetary Union of the European Union
ESMA	European Securities and Markets Authority
EU	European Union
FATF	Financial Action Task Force
FCA	UK Financial Conduct Authority
FED	Federal Reserve System
FVTPL	Fair value loans through profit or loss
FX	Foreign Exchange
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GDR	Global Depositary Receipts
HICP	Harmonised Index of Consumer Prices
HR	Human Resources
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

IMF	International Monetary Fund
ISM	Information Security Management
KDD	Central Securities Clearing Corporation
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LTD	Loan-to-Deposit Ratio
M&A	Mergers and Acquisitions
MAR	Market Abuse Regulation
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation Rules
MREL	Minimum Requirement of Own Funds and Eligible Liabilities
NIM	Net Interest Margin
NIS Directive	The Directive on security of network and information systems
NLB or the Bank	NLB d.d.
NLB Skladi	NLB Assets Management
NPE	Non-Performing Exposures
NPL	Non-Performing Loans
OCR	Overall capital requirement
p.p.	Percentage point(s)
POS	Point of Sale
PSD2	Payments Services Directive
REAM	Real Estate Asset Management
ROA	Return on Assets
ROE	Return on Equity
RORAC	Return on Risk-Adjusted Capital
RoS	Republic of Slovenia
RTS	Regulatory Technical Standards
RWA	Risk Weighted Assets
SEE	South Eastern Europe
SME	Small and Medium-sized Enterprises
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SSH	Slovenian Sovereign Holding
SURS	Statistical Office of the Republic of Slovenia
TLOF	Total Liabilities and Own Funds
TSCR	Total SREP Capital Requirement
The Group	NLB Group
UK	United Kindom
US	United States
ZBan-2	Slovenian Banking Act
ZGD-1	The Companies Act
ZPlaSSIED	Payment Services, Services of Issuing Electronic Money and Payments Systems Act
ZTFI-1	Financial Instruments Market Act
ZVKNNLB	Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana
ZVOP-2	The Slovenian Personal Data Protection Act

Contents

NLB Group strategic members overview

	NLB Group	NLB, Ljubljana	NLB Vita, Ljubljana	NLB Skladi, Ljubljana	NLB Banka, Skopje	NLB Banka, Banja Luka	NLB Banka, Sarajevo	NLB Banka, Prishtina	NLB Banka, Podgorica	NLB Banka, Beograd
		Slovenia			Macedonia	Bosnia and Herzegovina		Kosovo	Montenegro	Serbia
Market position in 2018										
Branches	**327**	94			54	57	38	38	18	28
Active clients	**1,830,209**	688,547			389,465	216,389	136,021	202,632	62,181	134,974
Total assets (in EUR million)	**12,740**	8,811	453[1]	1,215[2]	1,350	721	592	668	489	484
Loan portfolio (net, in EUR million)	**7,148**	4,478			859	385	359	467	311	319
Deposits (in EUR million)	**10,464**	7,033			1,076	576	472	586	392	353
Result after tax (in EUR million)	**203.6**	165.3	8.3	4.3	37.1	16.2	8.8	14.8	10.0	5.2
Market share by total assets		22.7%	14.6%[3]	32.1%[4]	16.3%	18.3%[5]	5.1%[6]	16.8%	11.1%	1.5%[7]
Macroeconomic indicators for 2018										
GDP (real growth in %)			4.5		2.7	3.1		4.1	4.9	4.3
Average inflation (in %)			1.7		1.4	1.4		1.1.	2.6	2.0
Unemployment rate (in %)			5.4		21.0	36.0		28.8	14.9	12.7
Current account of the balance of payments (as a % of GDP)			7.3		-0.3	-4.8		-7.1	-17.3	-5.2
Fiscal balance (as a % of GDP)			0.8		-1.8	1.1		-1.3	-3.2	0.6

1. Assets of covered funds without own resources.

2. Assets under management.

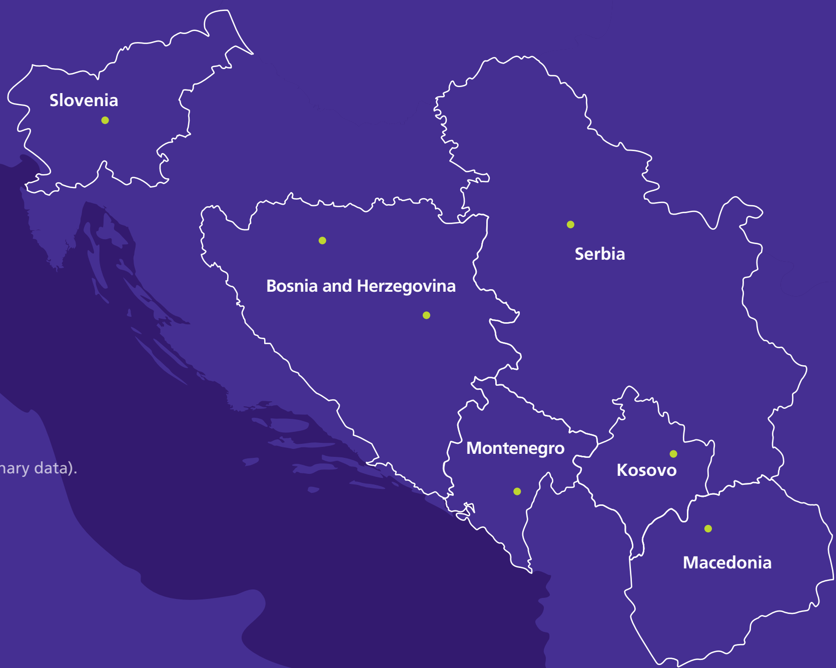
3. Market share in traditional life insurance.

4. Market share of assets under management in mutual funds.

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

6. Market share in the Federation of BiH as at 30 September 2018.

7. Market share in Republic of Srpska as at 30 September 2018.



Chapter 1

Key highlights of NLB Group

Overview of NLB Group

The Group is the largest banking and financial group in Slovenia with an strategic focus on selected markets in SEE. It covers markets with a population of approximately 17 million people. The Group is comprised of NLB as the main entity in Slovenia, six subsidiary banks in SEE, several companies for ancillary services (asset management, insurance, real estate management, etc.), and a limited number of non-core subsidiaries in a controlled wind-down. NLB is a public listed company. The largest shareholder is the RoS with 35% ownership.

The largest banking and financial group in Slovenia

NLB is the largest bank in Slovenia, with 94 branches, 688,547 active clients, and a 23.0% market share by total assets.

A very strong retail deposit-taking franchise with a market share of 30.3%.

Market leader across banking products and innovative solutions and a leading provider of asset management and life insurance products.

Rating of NLB was improved by three rating agencies: an upgrade from BB to BB+ by Fitch (outlook: stable) and Standard and Poor's (outlook: positive); upgrade by two notches by Moody's, from Ba1 to Baa2 (outlook: positive). Capital Intelligence affirmed the rating at BBB- (outlook: stable).

Leading position in selected SEE markets with growth potential

SEE markets are still recording strong GDP growth exceeding the Eurozone average. Domestic consumption in these markets is on the rise and the penetration of financial products is significantly below European averages.

NLB is present in five SEE countries (Macedonia, Kosovo, two subsidiaries in BiH, Montenegro, and Serbia). In four out of six markets, the market share exceeds 10%.

All NLB subsidiary banks in the region are profitable, well-capitalised, independent and largely self-funded, therefore well placed to utilise the growth potential of the region.

The Group has strong network of 233 branches and 1.14 million active clients in SEE only (excluding NLB).

Stable and profitable operations

Profitable for five-consecutive years in a row with the highest Group profit before impairments and provisions (EUR 204.6 million) in 2018.

Revenue evolution driven by stable net interest margin and increasing fee income.

Strong increase in the contribution of international operations to revenue and profit growth.

Continuous cost containment efforts.

ROE a.t. of 11.8% and a CET 1 ratio of 16.7%[8].

Negative cost of risk due to positive economic circumstances and positive result from NPL collection.

Self-funded and well-capitalised

Strong liquidity position, stable and diversified funding structure with a LTD of 68.3% gives the Group the potential for further loan placements.

Implementation of IFRS 9 strengthened the Group's capital basis.

A robust CET 1 ratio of 16.7%[9], above the EU average as published by the EBA, reflects strong capitalisation and supports further stable dividend pay-outs.

100% of 2017 profit of the Bank and all retained profits from previous years was paid out as a dividend to the RoS in October 2018.

Constant improvement of asset quality

Very stable credit portfolio quality with increasing Stage 1 exposures and a reduction of NPLs. Improved structure of the credit portfolio with new NPL formation ratio from new business at consistently low levels (2018: 0.2% of gross loan portfolio, which equals EUR 19 million).

NPE ratio as defined by EBA was additionally reduced from 6.7% in 2017 to 4.7% in 2018[10], with strong NPL coverage ratio 2[11] standing at 64.6%.

Comprehensive organic and inorganic NPE reduction strategy. Great emphasis is on intensive and proactive handling of problematic customers, changes in the credit process and early warning system for detecting increased credit risk.

Continuous disposal of non-core Group members and non-core loan portfolios.

Strategic orientation

The strategic aim is to become a regional innovative bank with simple customer oriented, data-driven solutions using digital and mobile technologies.

By recognising the importance of digital transformation, the Bank will continue to direct comprehensive strategic efforts to digitalise both sales channels and internal operations.

SEE countries will remain the strategic focus of the Group.

The Group is firmly committed to achieving its mid-term financial targets, which include: ROE > 12%, CIR at approximately 50%, NPE ratio < 4%, and approximately a 70% dividend pay-out ratio of the Group's profit.

Following the successful conclusion of the first stage of privatisation, the Bank (as a publicly listed company) may reassess its current business strategy and adapt it to the new business and market conditions.

8. CET 1 includes the H1 2018 result of EUR 109 million.

9. CET 1 includes the H1 2018 result of EUR 109 million.

10. NPL ratio reduced from 13.8% in 2016 to 9.2% in 2017.

11. NPL coverage ratio 2: the coverage of the gross NPL portfolio with loan loss allowances on the NPL portfolio.

Medium-term strategic and financial targets

Table 1: Market performance and outlook (mid-term strategic and financial targets)

	Performance in 2018	Mid-term outlook
Net interest margin	2.56%	> 2.7%
LTD	68.3%	< 95%
Total capital ratio	16.7%	~ 17.0%
CIR	58.5%	~ 50%
Cost of risk	-43 bps	< 90bps
NPE ratio	4.7%	< 4%
ROE a.t.	11.8%	> 12.0%
Dividend pay-out	120%*	~ 70%

* Consisted of EUR 189.1 million of profit for the fiscal year 2017 and EUR 81.5 million of retained earnings from previous years.

Key performance indicators

Table 2: Key financial caption for NLB Group and NLB

	2018		2017		2016	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Income statement data (in EUR million)						
Net interest income	313	158	309	159	317	175
Net non-interest income	180	165	178	171	158	138
Regular net non-interest income	169	154	166	161	145	125
Total costs	-289	-179	-285	-176	-290	-181
Result before impairments and provisions	205	144	203	154	186	132
Impairments and provisions	23	33	30	31	-61	-64
Net gains / losses, from subsidiaries, associates, and JV	5	-	5	-	5	-
Result before tax	233	177	237	185	131	68
Result of non-controlling interests	8	-	8	-	6	-
Result after tax	204	165	225	189	110	64
Financial position statement data (in EUR million)						
Total assets	12,740	8,811	12,238	8,713	12,039	8,778
Loans and advances to non-banking sector (gross)	7,627	4,704	7,641	4,987	7,901	5,434
Impairments and valuation of loans to non-banking sector	-479	-226	-647	-317	-903	-505
Loans and advances to non-banking sector (net)	7,148	4,478	6,994	4,670	6,997	4,929
Financial assets (securities & derivatives)	3,399	2,869	2,963	2,460	2,778	2,295
Deposits from non-banking sector	10,464	7,033	9,879	6,812	9,439	6,617
Equity	1,616	1,295	1,654	1,381	1,495	1,265
Non-controlling interests	41	-	35	-	30	-
Total off-balance sheet items	3,996	3,473	3,880	3,389	2,934	2,502
Key financial indicators						
a) Capital adequacy						
Total capital ratio*	16.7%	24.1%	15.9%	21.8%	17.0%	23.4%
Tier 1 ratio*	16.7%	24.1%	15.9%	21.8%	17.0%	23.4%
CET 1 ratio*	16.7%	24.1%	15.9%	21.8%	17.0%	23.4%
RWA (in EUR million)	8,678	5,024	8,546	5,234	7,862	4,882
RWA / Total assets	68.1%	57.0%	69.8%	60.1%	65.3%	55.6%
b) Asset quality						
NPL coverage ratio 1 (the coverage of the gross NPL portfolio with loan loss allowances on the entire loan portfolio)	77.1%	65.8%	77.5%	67.8%	76.1%	71.7%
NPL coverage ratio 2 (the coverage of the gross NPL portfolio with loan loss allowances on the NPL portfolio)	64.6%	57.1%	62.2%	56.0%	64.6%	60.8%
NPL volume (in EUR million)	622	343	844	478	1,299	753
NPL / Total loans	6.9%	6.3%	9.2%	8.1%	13.8%	11.9%
Net NPL / Total net loans	2.6%	2.8%	3.8%	3.8%	5.4%	5.1%
NPE - EBA Definition	4.7%	3.9%	6.7%	5.8%	10.0%	8.5%
NPE (balance and off-balance) / Classified active balance and off-balance exposures	4.9%	4.2%	8.0%	7.0%	12.1%	10.4%
Received collaterals / NPE	67.4%	71.1%	66.5%	70.0%	58.3%	62.5%
Credit impairments and provisions / RWA	-0.3%	-0.6%	-0.5%	-0.8%	0.3%	0.3%

	2018		2017		2016	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
c) Profitability						
Interest margin**	2.5%	1.8%	2.6%	1.8%	2.7%	2.0%
Financial intermediation margin	3.9%	3.7%	4.1%	3.8%	4.0%	3.6%
ROE b.t.	13.2%	12.4%	14.8%	14.1%	8.6%	5.3%
ROA b.t.	1.9%	2.0%	2.0%	2.1%	1.1%	0.8%
ROE a.t.	11.8%	11.6%	14.4%	14.4%	7.4%	5.0%
ROA a.t.	1.6%	1.9%	1.9%	2.2%	0.9%	0.7%
d) Business costs						
Operating costs / Average total assets	2.3%	2.0%	2.4%	2.0%	2.4%	2.1%
CIR	58.5%	55.3%	58.4%	53.3%	60.9%	57.9%
CIR normalised (w/o non-recurring items)	59.0%	55.9%	58.9%	53.6%	61.8%	59.2%
Total costs / RWA	3.3%	3.6%	3.3%	3.4%	3.7%	3.7%
Total costs / Total assets	2.3%	2.0%	2.3%	2.0%	2.4%	2.1%
e) Liquidity						
Liquidity assets / Short-term financial liabilities to non-banking sector	54.1%	48.2%	54.5%	61.6%	55.7%	63.3%
Liquidity assets / Average total assets	38.0%	42.5%	41.4%	46.6%	40.7%	45.6%
f) Other						
Market share in terms of total assets	-	22.7%	-	23.0%	-	23.7%
LTD (Net loans to non-banking sector / Deposits from non-banking sector)	68.3%	63.7%	70.8%	68.6%	74.1%	74.5%
Revenues / RWA ***	5.5%	6.2%	5.6%	6.1%	5.9%	6.1%
Key indicators per share						
Shareholders*****	-	1,716	-	1	-	1
Shares	-	20,000.000	-	20,000.000	-	20,000.000
Book value (in EUR)	80.8	64.8	82.7	69.1	74.8	63.2
International credit ratings						
S&P	BB+		BB		BB-	
Fitch	BB+		BB		BB-	
Moody's ****	Baa2		Ba1		Ba3	
Capital Intelligence	BBB-		BBB-		BB+	
Employees						
Number of employees	5,887	2,690	6,029	2,789	6,175	2,885

* 31 December 2018 includes 1H 2018 result (EUR 109 million).
** Calculated on the basis of average total assets.
*** Recurring income only.
**** Unsolicited rating.

*****As per share register of KDD. The shares are listed on Ljubljana Stock Exchange. The Bank of New York Mellon (the "GDR Depositary") represented in the share register of KDD as one holder is not the beneficial owner of shares, it holds shares in its capacity as the depositary for the GDR holders. The GDRs representing shares are issued against the deposit of shares and are listed on London Stock Exchange. Therefore, the number in the share register of KDD does not represent all final beneficial owners of the Bank shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR Depositary and individual GDR holders do not have any direct right to either attend the general meeting of bank's shareholders or to exercise any voting rights under the deposited shares.

Table 3: Information on the liquidity coverage ratio (LCR)*

	Q1 2018 (Jan - Mar)		Q2 2018 (Apr - Jun)		Q3 2018 (Jul - Sept)		Q4 2018 (Oct - Dec)	
	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB	NLB Group	NLB
Liquidity Coverage Ratio (LCR)	294%	315%	304%	331%	313%	351%	332%	384%
High Quality Liquid Assets (HQLA)	2,390,376	2,223,134	2,460,750	2,288,097	2,633,052	2,446,833	2,774,539	2,577,782
Net Liquidity Outflows	821,261	712,509	812,593	693,238	842,151	699,248	839,594	678,517

* Table 3 illustrates the values and data for each of the four calendar quarters (January-March, April-June, July-September, October-December). They are calculated as a simple average of observations on the last calendar day of each month for a period of 12 months before the end of each quarter.

Table 4: NLB share information

	31 December 2018
Total numbers of shares issued	20,000,000
Max closing price (in 2018)	EUR 62.00
Min closing price (in 2018)	EUR 56.00
Closing price as at 28 December 2018*	EUR 62.00
NLB Group book value per share	EUR 80.8
NLB Group earnings per share (EPS)	EUR 10.2
Price / NLB Group book value (P/B)	0.77
Dividend per share (for the previous business year)	EUR 13.53
Market capitalisation as at 28 December 2018*	EUR 1,240,000,000

* No market on 31 December 2018.

Key events

January
The Bank acted as one of the Lead Managers in the issue of a new, 10-year reference bond of the RoS in the amount of EUR 1.5 billion.

February
The Bank for the third year in a row obtained the "Top Employer" certificate, awarded by an independent Dutch institute (Top Employers Institute), for innovations and improvements in the field of HR processes.

March
NLB was the first Slovenian bank to launch a new payment service "NLB Pay", that is a mobile wallet which enables the advanced payment of purchases at points of sales using a smartphone.

The Bank and NLB Banka, Skopje sold its subsidiary NLB Nov penziski fond, Skopje and realised profit in the amount of EUR 12 million for the Group and EUR 9 million at the Bank level.

May
S&P assigned the Bank a long-term credit rating of BB+ (outlook Developing).

July
NLB Skladi received a prestigious award from the British Cfi.co magazine, specialising in financial and economic trends, for providing investors (in the Slovenian asset management and mutual funds market) with the most efficient investment products.

August
In relation to the state aid proceedings before the EC, the EC approved the amendment of the restructuring commitments of the Bank.

Moody's assigned the Bank a Ba1 long-term credit rating (outlook Positive).

September
The Bank sold shares representing 28.13% of Skupna share capital, as a result of which the Bank is no longer a shareholder in Skupna pokojninska družba d.d. The sale generated a profit in the amount of EUR 2.5 million for the Bank and a loss of EUR 0.5 million at the Group level.

October
Fitch assigned the Bank a BB long-term credit rating (outlook Rating watch evolving).

At the regular Shareholders' Meeting of the Bank and following a prior consent from the ECB, the decision was adopted to disburse profit for the appropriation of the Bank in the amount of EUR 270.6 million (consisting of EUR 189.1 million in profit for the fiscal year 2017 and EUR 81.5 million of retained earnings from previous years) to its shareholders in dividend, which is EUR 13.53 gross per share, and to keep the remainder of EUR 26,683.47 undistributed as retained profit.

SSH and the Bank announced intention to proceed with an offering of no less than 10,000,001 (50% plus one share) and up to 14,999,999 (75% minus one share) of the Bank's shares held by the RoS to the public, the listing of its shares on the Ljubljana Stock Exchange, and GDRs representing the shares on the London Stock Exchange.

November
The Bank and SSH announced the successful pricing of the offering of the Bank's shares and GDRs to the public representing 11,818,181 (59.1%) of all of the Bank's shares (excluding the over-allotment option). The offer price per share was EUR 51.50, and the offer price per GDR (five GDRs represent one share) was EUR 10.30.

The total size of 20,000,000 (100%) of the Bank shares were admitted to the Ljubljana Stock Exchange and GDRs to the London Stock Exchange.

Fitch upgraded the Bank's long-term IDR to BB+ from BB, and removed it from Rating Watch Evolving (RWE). The Bank's outlook is stable.

December
Moody's upgraded the Bank's long-term local and foreign-currency ratings to Baa2 from Ba1. The Bank's outlook remains positive.

After the over-allotment option was exercised, the final total size of the concluded offering of RoS shares to the public was 13,000,000 (65%) of the shares of the Bank. The shareholding of RoS was reduced from 20,000,000 (100%) shares to 7,000,000 (35%) shares.

Standard and Poor's (S&P) revised NLB's outlook to "positve" from "developing" and affirmed its BB+ long-term issuer credit rating. According to S&P, the rating action reflects the strong performance and partial privatisation of the Bank.

Shareholder structure of NLB

The Bank shares are listed on the Prime Market sub-segment of the Ljubljana Stock Exchange (ISIN SI0021117344, Ljubljana Stock Exchange trading symbol: NLBR) and the GDRs, representing shares, are listed on the Main Market of the London Stock Exchange (ISIN: US66980N2036 and US66980N1046, London Stock Exchange GDR trading symbol: NLB and 55VX). Five GDRs represent one share of NLB.

Table 5: NLB's main shareholders as at 31 December 2018

Shareholders	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders*	11,071,394	55.36
of which Brandes Investment Partners, L.P.**	1,342,035	6.71
of which EBRD**	1,250,000	6.25
RoS	7,000,000	35.00
OTP banka d.d. - client account	550,000	2.75
Addiko Bank d.d. - Pension fund 1 - fiduciary account	267,500	1.34
Other shareholders	1,111,106	5.55
Total	**20,000,000**	**100.00**

* The Bank of New York Mellon holds shares in its capacity as the depositary (the GDR Depositary) for the GDR holders and is not the beneficial owner of such shares.
** The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

Market performance of NLB's securities (shares and GDRs)

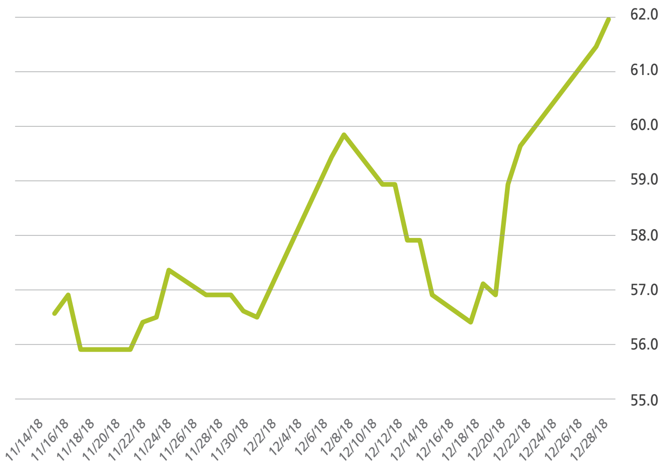


Figure 1: Ljubljana Stock Exchange (Shares)

Figure 2: London Stock Exchange (GDRs)

NLB's Market capitalisation

Table 6: Market capitalisation

	Symbol	Market capitalisation as at 28 December 2018*
Ljubljana Stock Exchange (Shares)	NLBR	EUR 1,240,000,000

* No market on 31 December 2018.

Indexes

FTSE Frontier Index: NLB (GDR) has been added to the FTSE Frontiers Index effective 27 November 2018.

SBITOP index: SBITOP index of the Ljubljana Stock Exchange also includes the stock of NLB as at 12 December 2018.

Investor Relations function

Since the listing of the Bank's shares and GDRs in November 2018, the importance of the Investor Relations (IR) function has increased substantially, requiring engagement with investors and the broader community. The Bank participated in varied forms of engagement, including investor meetings, calls, and conferences, reflecting the diverse nature of the Bank's ownership structure. Open and regular communication with investors and analysts allowed promoting dialogue on strategic developments, as well as on the recent financial performance of the Group. The Bank promoted greater awareness and understanding of operating businesses, developments, and events which have an influence on the performance of the Bank's share price.

The IR section of the Bank's website is an important communication channel that provides comprehensive information on the Group and share price performance of the Bank. In addition, it enables the effective distribution of information to the market in a clear and consistent manner. IR presentations, financial reports, and important information are uploaded to the Bank's website on a timely basis.

Since the listing in November 2018, four analysts released research reports about the Group. The Bank's share was covered by analysts from JP Morgan, Deutsche Bank, Wood & Company, and Citi.

Business Report

Chapter 2

Statement by the Management Board of NLB

Dear Shareholders,

In 2018, NLB Group continued its trend of stable and profitable business operations, further recognising the importance of its regional presence. Not only has NLB Group recorded a net profit of EUR 203.6 million, with all SEE subsidiary banks reporting profits and contributing substantially to NLB Group's result (37%[12]) and further reduction of NPE ratio to 4.7%, it also crossed a historic milestone concluding partial privatisation of NLB. This enables us to breathe with full lungs once more and to, ultimately, start operating with our full potential in the SEE market – the market of our opportunities. Our course is clear. We want to be the most logical choice for doing business in the SEE region.

In 2018, 65% of the Republic of Slovenia's share in NLB in the first phase of privatisation was sold. The second phase is expected to be completed in 2019 to reduce the Republic of Slovenia shareholding to a 25% plus one share. The partial privatisation opened new horizons to the entire NLB Group. We are now a publicly listed company, our shares having been admitted for trading on the Ljubljana and London stock exchanges, which ensures independent and professional corporate governance, and a new investment opportunity for new investors. Some of the most renowned global financial investors joined our journey as our new shareholders. The trust that was showed by them is a confirmation of NLB Group's strong current performance and a perspective value-creating future. NLB Group's potential was also recognised by rating agencies that have upgraded NLB's credit rating and outlooks.

All this combined with the lifting of some of the severely limiting commitments imposed by the European Commission enables us to, ultimately, start operating and competing on the market with full potential. From now on, we will be able to finance projects in the international environment. We want to strenghten the position of regional specialist as the financial organisation with a consistent strategy across all our markets.

We are focused on delivering the best customer experience on the market. We are building unique omnichannel product distribution, partnership programme, and end-to-end customer solutions. Innovation is at the core of our being. Traditionally, NLB Group has been a market leader in innovation. With the introduction of new solutions such as the mobile wallet 'NLB Pay', and the transfer of our most innovative offers on all our markets, NLB Group maintains its position of trendsetter. With our migration to the digital channels, optimisation of the sales process, and improved customer insight, we are ever closer to our customers.

We are looking forward to justifying the expectations of our shareholders not only by continuing the trend of stable operations and innovative solutions, but also by proving our strong dividend potential. NLB Group has been paying increasing dividends since 2015, with pay-out dividends in the total amount of EUR 270.6 million in 2018 (consisting of net profit for the fiscal year 2017 in the amount of EUR 189.1 million, and EUR 81.5 million of retained profit from previous years). Our future intention is to distribute dividends in the excess of NLB Group's target total capital ratio, in the amount of approximately 70% of NLB Group's consolidated profit in the medium term. We are committed to justifing the trust of our shareholders by responsibly creating long-term value and developing our business potential.

NLB Group is the only financial institution focusing solely on the SEE region. NLB, together with other NLB Group's subsidiary banks, are systemically important institutions in five countries. We are a leading franchise in the region based on total assets (compared to other banks present in the same countries), with a network of 327 branches and 1.8 million active clients. The SEE region is our home. We have a unique understanding of the local environment. We know the language,

12. On NLB Banka, Skopje, the positive effect from non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 8.5 million is excluded.

culture, and mentality. We pay special attention to building personal relations with our clients, our societies, and our environment.

All of this enables us to positively affect the quality of life and the stability of the countries in this region. We accept this role with pride and great responsibility. That is why we excel not only at providing innovative solutions for our clients and sharing our knowledge and our expertise, but also at recognising, nurturing, mentoring, and developing talents and supporting them on their path – whether they are talents in culture, sports, or in our banking area. We are as well proud of the Top Employer certificate which was awarded to us by the independent Top Employers Institute for the third year in a row. We understand this as a recognition of our efforts and as an incentive for our future – to become the most desirable employer in the region.

In recent years, NLB Group has walked a path towards becoming a modern, competitive, efficient, and effective bank. We have made substantial progress and important steps toward ensuring the future success of NLB Group. We are aware of new macroeconomic and business challenges that are on the horizon, and we will make sure that our new business strategy response to these challenges will be effective and successful. We will make sure that NLB Group will be prepared – for whatever may come.

A. Burkhardt

László Pelle
Member of the Management Board

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board

Blaž Brodnjak
President & CEO

Archibald Kremser
Member of the Management Board

Andreas Burkhardt
Member of the Management Board

Blaž Brodnjak
President & CEO

László Pelle
Member of the Management Board

Chapter 3

Statement by the Supervisory Board of NLB

To Our Shareholders,

We, at the Supervisory Board, tend to think our clients should be somewhat discontented at all times in order to keep pushing NLB ahead and to drive its commitment toward a constant operational excellence. We also like to think NLB Group employees should have an uncompromising customer obsession to drive their efforts to provide the best client service and experience possible.

Even more, we think the Supervisory Board has a duty to perform the supervision and process navigation function in a way to relentlessly pursue NLB's purpose (mission), NLB's business plan (strategy), and NLB's vision of how the entire NLB Group should look in the future.

Only if we all do these things right at all times, will we continue to deserve the trust of yourselves, NLB Group owners, of our business partners, of our retail clients, of the society around us, and especially of our employees.

Having said that, NLB's strategic focus remains unchanged. As a regional specialist, NLB Group is the only financial institution focusing solely on the SEE region. We have a unique understanding of the local environment, the language, culture, and mentality. The other strategic objective is that NLB Group stays fully customer-oriented, as we focus on delivering the best customer experience and pay special attention to building personal relations with our clients, our societies, and our environment.

By saying NLB Group is committed to digital business, to the building of a unique omnichannel product distribution network, to partnership programs, and to end-to-end customer solutions, we literally mean it and we hold ourselves accountable for that.

To be able to deliver on our promises, we should strive to have high standards (widely deployed and at all levels of detail) to stay ahead of our customers' expectations. If I'm allowed to borrow a few thoughts from a great achiever like Jeff Bezos, high standards are teachable, should be articulated well for the employees to learn and adapt them wholeheartedly, and should be domain-specific. What does that mean for NLB's way of banking? It means we, at NLB Group, need to know what is absolutely the best banking practice on all service and production levels, we should have realistic expectations for how hard it should be to achieve that, and strive to get there as soon as possible.

2018 Developments in brief

Not to lose too many words on the widely known macro perspective, the situation in the Slovenian economy continued to improve, though more slowly than in 2017 when it grew at a rather outstanding 5% GDP growth rate. However, growth in the construction segment, household disposable income, and consumer loans, together with higher spending by foreign tourists supported the continuation of relatively strong turnover growth in trade and other service activities. Unemployment fell at a moderate pace in the last months of the year, but with an 8.2% unemployment level and the widely-perceived 5% level that represents full employment structurally (at least in Slovenia), good talent is truly hard to find. Not just in the banking industry.

For the financial year 2018, NLB Group continued its trend of stable and profitable business operations, with profit after tax for the period amounting to EUR 203.6 million, on the back of the substantial continued contribution from subsidiaries. The operations of NLB Group were underpinned by their strong liquidity and capital positions with the total capital adequacy ratio reaching 16.7%. From a SOTP (sum of the parts) perspective, NLB's profit exceeded the budget due to strict cost controls, higher net interest income, and the release of impairments and provisions. Across NLB Group, all subsidiary banks recorded encouraging net operating income (topline growth), ranging from 16.4% YOY in our largest subsidiary NLB Banka, Skopje, to 8%

Primož Karpe
Chairman of the Supervisory Board

annual growth in NLB Banka, Banja Luka, with the only notable outlier being NLB Banka, Sarajevo with 1.4% YOY growth. This growth was, at the same time, coupled with the highest achieved profit after tax in the subsidiary's history so far. All other core companies, namely NLB Skladi, NLB Vita, and Bankart finished 2018 with an annual growth in net profit. Overall, the Group has continued to generate positive results and favorable trends in the areas of asset leverage, balance sheet management, cross-selling, cost control, and the cost of risk.

All in all, I am proud of what NLB Group has delivered to all of its key constituencies (shareholders, clients, employees, and society) in 2018, especially given the fact that we also completed the first phase of privatisation in November 2018, as required by the commitments given to the European Commission. Looking back at all the efforts, our IPO debut was a well-deserved success.

NLB Group maintains its corporate governance principles in line with the highest standards

NLB's Supervisory Board monitors and supervises the management and operations of NLB Group. In doing so, it resolves to utilise uncompromised principles of professionalism and expertise, and to maintain its strong dedication to integrity, ethics, and honesty. Throughout the year, the Supervisory Board has maintained a well-balanced professional relationship with the Management Board and enjoyed timely, comprehensive, and data-supported inputs from the latter, enabling the Supervisory Board to adopt all its decisions in line with the professional interests of NLB, whilst adhering at all times to banking regulations and its statutory powers.

Throughout 2018, the composition of the Supervisory Board remained unchanged. The Supervisory Board was composed of eight members (out of nine as defined by the Articles of Association), namely: Primož Karpe - Chairman; Andreas Klingen - Deputy Chairman; and Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek, and Peter Groznik (members). Two members of the Supervisory Board (Šeme Hočevar and Kozjek) submitted their resignation statements with a three-month notice, but only because we followed the commitments in the field of corporate governance, which the Republic of Slovenia submitted to the European Commission in 2018.

Procedurally, the Supervisory Board performed its work in accordance with its competences and the Rules of Procedure of the Supervisory Board of NLB. It carried out its function of assuring efficient supervision over the management of NLB and NLB Group, and its duty of careful and scrupulous performance, based on its competences as laid down by the applicable law and other regulations, as well as by internal acts of NLB. The Corporate Governance Code for Limited Companies and the Corporate Governance Code for Companies with State Capital Investment was also observed by the Supervisory Board in performing its duties.

In 2018 the Supervisory Board held seven regular and four correspondence sessions. The Supervisory Board also received expert assistance from its four operational committees, namely the Audit, Risk, Nomination, and Remuneration Committees, the composition and tasks of which are presented in the Corporate Governance section of this Annual Report.

While members of the Supervisory Board have proper and complementary knowledge, experience, and skills to perform their duties, they all have different professional, national, and educational backgrounds. The Supervisory Board represents a balanced, complementary team of experts focused on the effectiveness of performing its core functions. All the members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, which was confirmed by the positive fit & proper assessment, completed in March 2019. This provides the assurance that they can carry out their supervisory roles in a responsible manner and make decisions that benefit and add value to NLB Group. The delivery of critical and assertive opinions has been and will remain at the core of our decision-making principles through the expected engaged participation of all the members at all times.

In line with the recommendation of the Corporate Governance Code for Listed Companies, and according to good corporate governance practices in November 2018, the Supervisory Board with the help of a foreign professional firm performed self-assessment of its composition, performance, and potential conflicts of interests of its members, as well as the board's functioning and its cooperation with the management board. In the process of evaluation, the Supervisory Board also assessed the work of its committees and adopted the Action Plan, prepared according to recommendations from the evaluation.

In accordance with the commitments given by the Republic of Slovenia to the European Commission (Decision of the European Commission dated 10 August 2018), the Supervisory Board invited a representative of KPMG, poslovno svetovanje d.o.o., Ljubljana, to all of its meetings – who is acting as a Monitoring Trustee for implementation of commitments.

Pursuant to the second paragraph of Article 282 of the Companies Act (ZGD-1), the Supervisory Board has compiled this written Annual Report with the aim of accurately and authentically presenting the activities of the Supervisory Board during the year.

Based on the Articles 272 and 281.a) of the Companies Act (ZGD-1) and the report above, the Supervisory Board asserts and establishes that it regularly and thoroughly monitored the operations of NLB and NLB Group in 2018 within its competences, thus adequately supervising the management and operations of NLB and NLB Group and overseeing NLB's Internal Audit.

Review and approval of NLB Group 2018 Annual Report

The Management Board of NLB submitted NLB Group 2018 Annual Report to the Supervisory Board, including the Business Report and Financial Report with the audited financial statements of NLB, the audited consolidated financial statements of NLB Group, and the auditor's opinion. According to the auditor, the financial statements with accompanying notes present fairly, in all material respects, the financial position of NLB and NLB Group as at 31 December 2018, and of their financial performance and their cash flows for that year in accordance with the International Financial Reporting Standards as adopted by the European Union. It was also established that the information contained in the business section of the Annual Report is consistent with the audited financial statements of NLB and NLB Group.

In accordance with Article 34 of the Articles of Association of the NLB the Supervisory Board verified the submitted Annual Report, and shall give a report at the General Meeting of Shareholders. Following a careful examination of the NLB Group 2018 Annual Report, the Supervisory Board had no objections, and unanimously approved it.

Yours truly,
Supervisory Board of NLB

Primož Karpe
Chairman of the
Supervisory Board

Chapter 4

Macroeconomic Environment

The global economy continued to enjoy enviable growth in 2018 even though it has slowed in the H2 2018. It maintained the momentum gained from 2017 in the H1 2018 with 3.5% growth, whereas in the H2 2018 growth slightly lost steam falling to 3.2% annually. Developed countries noted a drop in the unemployment rate and salary increases, which in turn resulted in higher consumption. Higher prices of crude oil and food boosted inflation, particularly in the Q2 2018. Thus, 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 the H1 2018. The growth in US inflation ensured that the FED increased the key interest rate four times in 2018 at 2.25% to 2.5% in December 2018, above the psychological level of 2%. In the US, consumption, along with the steady job gains, remains high and boosted economic growth. Asia sustained high growth rates despite slightly losing momentum due to trade war concerns, whereas 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 and subsequently capital outflows toward the US.

In 2018, the European economy recorded positive economic growth, although slightly lower than in 2017. Euro area real GDP increased in 2018 by 1.8% YoY. The results were weaker than expected, reflecting a weakening contribution from external demand and some country- and sector-specific factors. In December 2018, Eurozone economic sentiment declined noticeably, partially reflecting decreasing confidence in industry which was consistent with the third consecutive monthly fall in November of industrial output in Germany. Since Europe's largest economy seems to be shifting into a lower gear, this will also have an inevitable diminishing effect 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 until at least the end of summer 2019 and while enhancing the forward guidance on reinvestment. In contrast, 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 a 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. The 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 a repricing of risk have led to lower equity and bond prices of Euro area corporations. In FX markets, the euro has broadly weakened in trade-weighted terms.

The overall global economic outlook is showing signs of moderating momentum. The maturing global economic cycle, waning policy support across advanced economies, and the impact of tariffs between the US and China are weighing on global activity. Global trade growth has slowed slightly, and uncertainties about future trade relations have increased. At the same time, financial conditions remain accommodative in advanced economies, while they have tightened for some emerging markets. Looking ahead, global economic activity is expected to slow down in 2019 and remain steady over the following two years, as policy support gradually diminishes and China transitions to a lower growth path. In the near term, the current cyclical momentum is expected to support global activity. A sizeable procyclical fiscal stimulus in the US, including lower taxes and increased expenditure, will also provide an incentive to global growth amid a broader shift towards more expansionary fiscal policies among advanced economies. In SEE countries, GDP growth is projected to remain robust in the near term, whereas in the large commodity-exporting countries the economic activity is projected to strengthen. The decline in oil prices and the current oil futures curve suggests gradually declining prices over the medium term, and indicate a falling contribution from energy prices to inflation, Conversely, diminishing spare capacity at the global level is projected to put some upward pressure on inflation. The December 2018 Eurosystem macroeconomic projections expect underlying inflation to increase gradually over the projection horizon, while annual real GDP growth should slightly decrease. For both 2019 and 2020, while slightly higher long-term lending

Table 7: Movement of key macroeconomic indicators in the Euro area and NLB Group region

	GDP (real growth in %)					Average inflation (in %)					Unemployment rate (in %)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Euro area	1.9	2.4	1.8	1.3	1.4	0.2	1.5	1.8	1.4	1.5	10.0	9.1	8.2	7.8	7.7
Slovenia	3.1	4.9	4.5	3.3	2.9	-0.1	1.4	1.7	1.7	2.0	8.0	6.6	5.4	5.1	4.9
BiH	3.1	3.5	3.1	3.1	3.1	-1.1	1.2	1.4	1.6	1.7	41.7	38.4	36.0	35.1	33.8
Montenegro	2.9	4.7	4.9	2.8	2.9	-0.3	2.4	2.6	2.3	2.0	17.7	16.1	14.9	15.0	14.8
Macedonia	2.8	0.2	2.7	2.9	3.1	-0.2	1.4	1.4	1.8	2.0	23.7	22.4	21.0	20.3	19.5
Serbia	3.3	2.0	4.3	3.4	3.3	1.1	3.2	2.0	2.4	2.7	15.3	13.5	12.7	11.6	11.0
Kosovo	4.1	4.2	4.1	4.1	3.9	0.3	1.5	1.1	1.6	1.8	27.5	30.5	28.8	28.0	27.5

Source: Statistical offices, Central banks, IMF, Eurostat, FocusEconomics
Note: Consensus Forecasts are highlighted in grey.

rates, lower stock prices and lower foreign demand growth will dampen activity, these effects are expected to be broadly offset by the favourable impact of lower oil prices, the weaker effective exchange rate of the euro, and some additional fiscal loosening. The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. However, the balance of risks is moving to the downside owing to the persistence of uncertainties related to geopolitical factors, Brexit, the threat of protectionism, vulnerabilities in emerging markets, and financial market volatility.

Economy in the Group's region

The Group's area of operations in the SEE markets has shown an increase in economic growth on average, growing from 2.9% in 2017 to 3.8% in 2018. Also, consumer prices increased by 1.7% in 2018, as the Consensus Forecast from FocusEconomics reported. Specifically, the highest YoY increase of economic growth was registered by Serbia, growing from 2% to 4.3%, and by Macedonia with the increase from 0.2% to 2.7%. Montenegro's growth slightly increased from 4.7% to 4.9%, while Kosovo decreased (from 4.2% to 4.1%) and BiH from 3.5% to 3.1%, YoY. The fiscal balance as a percentage of GDP was positive for the second consecutive year in Serbia and BiH, whereas in Macedonia, Montenegro, and Kosovo, it was negative. The current account balance as a percentage of GDP was negative in all of these countries. Serbia revealed a slowdown in the Q3 2018 after surging growth in the H1 2018, but remained on solid foundations with private consumption, fixed investment, 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 investment, Macedonia's performance was supported by robust consumption, while BiH's slight decrease was due to diminished exports. In the Q4 2018 the growth remained robust underpinned by wage growth and compact labour markets, as well as still solid expansion in the EU. Some risks are growing from Kosovo's introduction of 100% tariffs on Serbian and Bosnian imports. In contrast, in October 2018 Serbia and the IMF discussed the first review of Serbia's Policy Coordination Instrument and agreed on a framework for the 2019 budget. The framework targets a fiscal deficit of 0.5% of GDP and is set to further reduce the public-debt ratio. In Macedonia, its parliament changed the country's name, which can end Greece's blocking of Macedonia to join NATO and the EU. Montenegro and Serbia opened further chapters as part of the EU accession process, which will have a further positive

3.2%
global economic growth in 2018

1.8%
economic growth in the Euro-area in 2018

4.5%
economic growth in Slovenia in 2018

3.8%
economic growth in the Group's SEE region in 2018

Table 8: Movement of balance of payment and fiscal indicators in the Euro area and NLB Group region

	Current account balance (% GDP)					Fiscal balance (% GDP)					Public debt (% GDP)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Euro area	3.2	3.2	3.0	2.9	2.8	-1.6	-1.0	-0.7	-1.0	-0.9	89.1	86.8	85.6	84.1	82.9
Slovenia	5.5	7.1	7.3	6.4	6.0	-1.9	0.1	0.8	0.4	0.3	78.7	74.1	69.5	66.4	63.5
BiH	-4.9	-4.8	-4.8	-5.1	-4.6	1.2	2.6	1.1	0.7	0.6	44.1	39.5	38.1	36.8	35.6
Montenegro	-16.2	-16.1	-17.3	-16.7	-15.0	-3.4	-5.5	-3.2	-2.9	0.1	64.4	64.2	69.4	68.9	65.3
Macedonia	-2.9	-1.0	-0.3	-1.1	-1.4	-2.7	-2.7	-1.8	-2.6	-2.6	39.9	39.5	40.7	42.7	42.7
Serbia	-3.1	-5.2	-5.2	-5.0	-4.8	-1.2	1.1	0.6	-0.3	-0.7	67.6	59.3	53.8	52.9	50.2
Kosovo	-7.9	-6.0	-7.1	-7.6	-7.3	-1.1	-1.1	-1.3	-2.3	-2.4	14.6	16.2	17.1	19.2	20.8

Source: Statistical offices, Central banks, IMF, Eurostat, Ministries of Finance, FocusEconomics
Note: Consensus Forecasts are highlighted in grey.

effect on the region, while BiH elected a new tripartite state presidency as well as over 500 other government officials in its October general elections.

Slovenia's economic growth remained robust with 4.5% growth in 2018. Inflation (HICP) increased to 1.7% in 2018 after lower levels in the previous years. Favourable economic conditions continued to have a positive impact on the labour market, as well. The number of employed persons grew by 3% on average for the second consecutive year. In the Q3 2018, SURS registered the highest employment in the last 23 years. The market is now steadily closing to a natural unemployment level. The economic sentiment indicator fell notably in the first nine months of 2018, while in the last few months of the year it slightly improved. In December still stood 12.3 p.p. above the long-term average. In the Q2 2018, the house prices were on average 13.4% higher at the annual level, while on the quarterly level they went up by 4.2%, which is the highest quarterly growth since 2007. A lively real estate market continued in the second quarter 2018, although the number of transactions was the lowest since the Q3 2015. Industrial production and construction output continued with growth in the Q3 2018. In 2018, industrial production was 4.6% higher YoY, although a decrease started at the monthly level in the last two months of the year. Likewise, growth in construction output strengthened notably in 2018. The annual growth came to 19.9% compared to 2017, which is a 2.2 p.p. higher increase than in the previous year, according to the SURS. The current account balance remains positive, as well it is the general government budget. Overall economic growth contributed to a further decrease of the public debt and its servicing.

The economic outlook shows signs of a moderating momentum in the Group's region, nonetheless, it is expected to be driven on solid foundations. The growth should be supported by wage gains, EU investment, healthy tourist arrivals, and a robust external demand for goods, as the Consensus Forecast from FocusEconomics has reported. External risks stem largely from greater global trade protectionism, while internally the risks include political tensions, particularly between Kosovo and **Serbia**. The latter is expected to remain one of the fastest growing countries in the region in 2019. Vigorous domestic demand should be underpinned by a tighter labour market, Foreign Direct Investment (FDI) inflows, and fiscal spending. **Bosnia and Hercegovina** is similarly positive, with the outlook for 2019 remaining promising. Job creation, higher remittances and a growing tourism sector should boost private consumption, while FDI inflows will likely drive investment. A fragmented government, however, could stall important reforms. In **Montenegro**, the economy is expected to settle into a softer pace of growth in 2019. Tourism and the energy sector are expected to support growth, while FDI inflows should keep investment strong. Still, imports related to infrastructure projects will likely keep the trade balance in deficit. **Kosovo** is expected to advance at a solid pace in 2019. Private consumption should be supported by declining unemployment, remittance inflows, and credit growth. However, growing political disputes in the region and the resulting trade tensions could hinder important reforms and weigh on investor confidence. In **Macedonia**, the economic growth should gain traction in 2019. Household spending should pick up because of an improving labour market, while investment should improve after 2018's poor performance on stronger FDI inflows. Nonetheless, in the whole SEE area the economic growth will be sensitive to a potential slowdown in the Eurozone and tighter global financial conditions. The same is true for **Slovenia**. Slovenia's economy is set to a more moderate pace in 2019, led by a deceleration in export

Table 9: Movement of key banking systems indicators in the NLB Group region

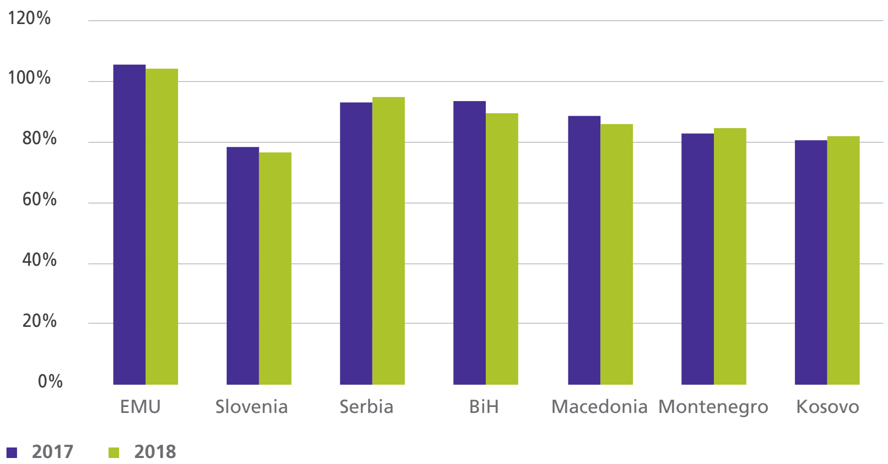
	Corporate loans		Household loans		Corporate deposits		Household deposits		Net interest margin		NPL		CAR	
	EUR million	Δ % YoY	EUR million	Δ % YoY	EUR million	Δ % YoY	EUR million	Δ % YoY	2017, in %	2018, in %	in %	Δ pp YoY	in %	Δ pp YoY
Slovenia	8,470	2.2	10,078	7.0	6,788	6.6	18,733	6.8	1.8	1.8	5.6	-2.8	18.1	0.0
BiH	4,409	3.6	4,725	7.3	1,904	11.8	6,210	7.8	3.2	3.0*	9.4*	-1.4	15.5*	-0.1
Montenegro	1,133	9.8	1,279	13.3	1,304	1.6	1,848	7.6	4.3	4.3*	6.9	-0.4	16.5*	-0.3
Macedonia	2,679	4.5	2,533	10.3	1,589	9.5	4,107	9.5	3.7	3.3*	5.0*	-1.6	16.3*	0.1
Serbia	9,142	6.9	8,607	12.5	7,273	22.1	11,782	9.2	5.4	5.4*	6.4*	-5.8	22.8*	0.3
Kosovo	1,746	10.7	999	11.2	718	13.6	2,334	7.5	5.3	5.3	2.7	-0.4	17.0	-1.0

Source: Statistical offices, Central banks, own calculation
Note: Net interest margin calculated on interest-bearing assets.
*Data in Q3 2018

growth amid a broad-based downturn across the Eurozone. Fixed investment will also likely grow at a more moderate pace due to less favourable financing conditions as the ECB moves to tighten its monetary policy stance. Conversely, household spending should be bolstered by the minimum wage hike, and continue to support a healthy pace of expansion.

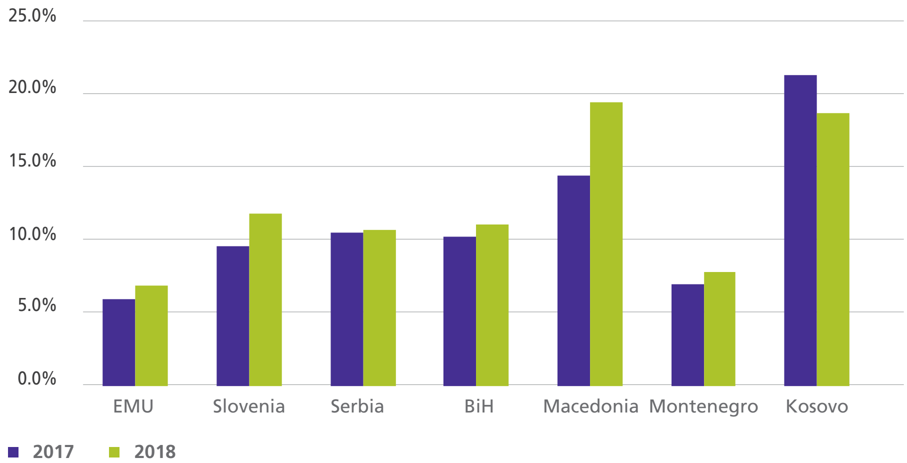
Banking System in the Group's region

The Group's regional banking systems improved in 2018. Kosovo's corporate loans growth represent a model for the Group's region with 10.7% YoY growth in December, while on the other side, Slovenia and BiH growths were more moderate with 2.2% and 3.6% YoY, respectively. The highest increase of household loans was registered by Montenegro, with over 13% YoY, whereas Slovenia and BiH recorded 7% YoY. Serbia showed the highest increase in corporate deposits growth with 22.1% YoY, while BiH and Kosovo both revealed growth of over 10% as well, with 11.8% and 13.6% YoY, respectively. Household deposits growth remains solid in the whole Group region, growing from 6.8% YoY in Slovenia and up to 9.5% YoY in Macedonia. The net interest margin was the highest in Serbia and Kosovo with over 5%, followed by Macedonia and Montenegro with over 4%. Slovenia's net interest margin was more moderate with 1.8%, due to the constraints imposed by the Eurozone and the ECB interest rate policy. The NPL ratio as a measure of the quality of bank loan portfolio improved in the entire Group's regional banking systems, with Serbia leading these improvements by 5.8 p.p. YoY. The CAR of the banking systems remained at solid levels.



Source: ECB, National central banks

Figure 3: LTD ratio in the Euro area and NLB Group region



Source: ECB, National central banks

Figure 4: ROE ratio in the Euro area and NLB Group region

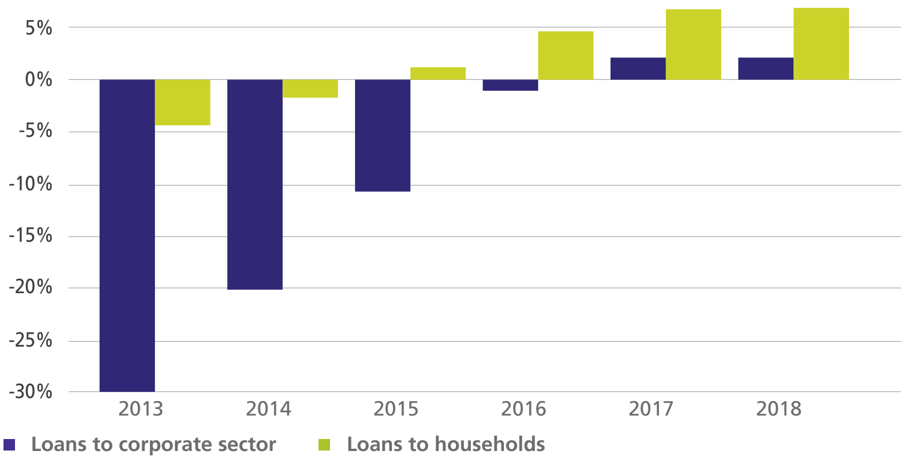
Source: ECB, National central banks, National Statistical offices, Own calculations

Figure 5: Loans to non-financial corporations and households' loans in the Euro area and the NLB Group region, 2018

The LTD ratio increased only in Serbia, Montenegro and Kosovo, while the ROE ratio increased in all of the Group's regional banking systems in 2018 except for Kosovo, which moderated from 21% in 2017 to 19% in 2018.

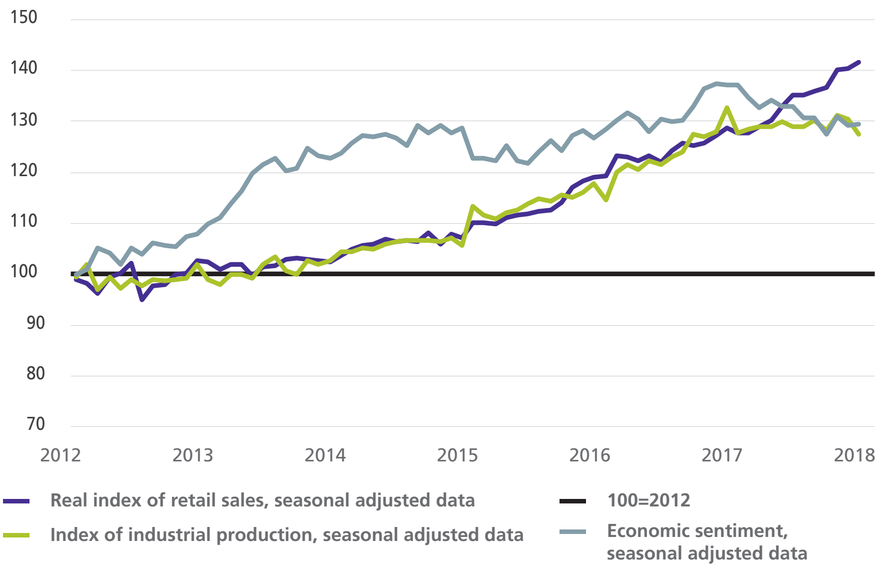
The Slovenian banking system continued to grow in 2018. The growth in loans to the non-banking sector slightly increased in December 2018 to 3.3%. Households loans growth was 7%, with consumer loans growth at 11.8%, and housing loans growth at 4.7% YoY. Growth in loans to non-financial corporations remains moderate at 2.2% YoY. The growth of deposits by the non-banking sector in December 2018 stood at 5.3%, and still exceeds the growth in the balance sheet total. The share of sight deposits in total deposits by the non-banking sector was 72.4%, while the net increase in deposits was sufficient for banks to finance lending activities. The growth of household deposits was relatively high, 6.8% YoY. The quality of bank investments continues to improve. NPE ratio fell to 4% in December 2018, whereas the NPL ratio declined to 5.6%. In 2018, the banking system operated with profit after tax by 16.8% higher than in the same period of 2017. The LCR of 323% exceeded the regulatory requirement in November 2018. The capital adequacy of the banking system declined at the end of the third quarter of 2018, but remained at a solid level. On a single basis it reached 19.8%, and on a consolidated basis it was 18.1% and remains above the average capital adequacy of the Euro area countries.

The outlook for the Group's regional banking systems remains positive. The sustained growth of the global economy and the Euro area are expected to remain supportive even though there are signs of moderating momentum. Nonetheless, the impact of the trade war between the US and China are weighing on global activity, as well as the trade tensions between the US and EU. The growth in the Group's region will be driven on solid foundations and supported by wage gains, EU investments and access to EU funds, healthy tourist arrivals, and robust external demand for goods, which should support the corporate loan portfolio and the retail loan portfolio growth. In Slovenia, a high growth is expected to continue mainly in construction and some private services. Employment growth remains high and employment forecasts remain positive. The average wage growth last year was a good three percentage points higher YoY. Additionally, household spending should be bolstered by the minimum wage hike. These conditions should be supportive for the corporate loan portfolio, as well as for the retail loan portfolio growth. The surplus in the current account exceeded 7% of the GDP last year, despite a reduction in the surplus of trade in goods. Public finances were in surplus last year, and the same are expected this year. Nevertheless, according to estimates, the structural situation is supposed to deteriorate this year, while expenditure growth is expected to be higher than that which is set by fiscal rules. The LTD will most likely remain stagnant, as deposits remain supported by the current account surplus and high degree of saving. Any major upward movement of interest rate income remains limited for some time, as well. Nevertheless, looking at the loans to non-financial corporations and households' loans as a percentage of GDP, it can be observed that the whole Group has the potential for further growth compared to the levels in the EMU area.



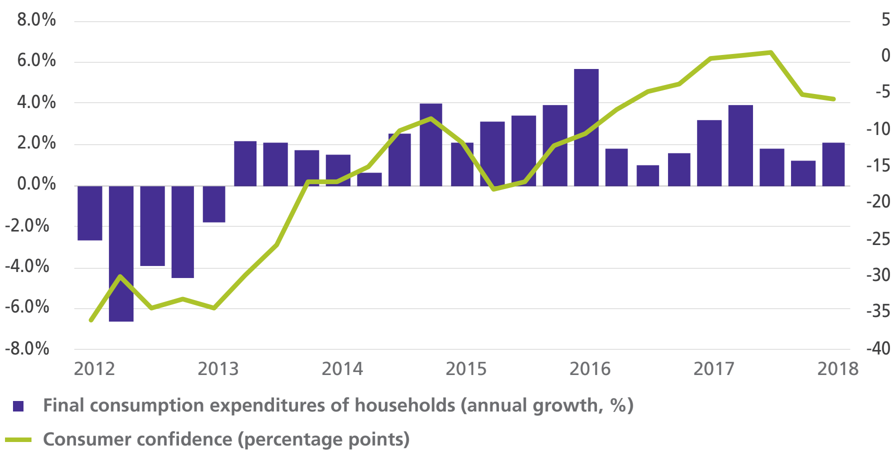
Source: BoS

Figure 6: Annual loan growth in the Slovenian banking system



Source: SURS, European Commission

Figure 7: Growth of economic metrics in Slovenia



Source: SURS

Figure 8: Households consumption expenditures and consumer confidence in Slovenia

Chapter 5

Overview of NLB Group's financial performance

The Group achieved profit for the fifth consecutive year in the amount of EUR 203.6 million, down 10% from the record in 2017 (2017: EUR 225.1 million). The strong result reflects business growth at a stable margin and the negative cost of risk.

This result is based on the following key drivers:

- A strong positive performance in the Bank with the year-end result of EUR 165.3 million. All Group subsidiary banks in the SEE contributed an important part to the consolidated net profit of the Group (37%, i.e. EUR 75.8[13] million).
- ROE a.t. stood at 11.8%, whereas the RORAC a.t. (on a normalised capital requirements of 15.38% of RWA) was at 15.3%.
- Non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the positive amount of EUR 12.2 million.
- Continued loan growth in Strategic foreign markets (10% YtD) and in retail loan balances in Slovenia (6% YtD).
- A very solid performance in the total net operating income based on higher net interest income and fee, and commission income.
- Continued solid performance with negative cost of risk, due to release of impairments and provisions.
- NPL levels were reduced by 26%, thus the NPL ratio decreased to 6.9% (from 9.2% in 2017); the NPE ratio is already at 4.7%.
- Liquid assets portfolio amounted to EUR 5,172 million (41% of total assets), while capital ratios for the Group stood at 16.7%.

13. On NLB Banka, Skopje, the positive effect from non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 8.5 million is excluded.

14. Core markets and activities include Corporate banking in Slovenia, Retail banking in Slovenia, Strategic foreign markets, and Financial markets in Slovenia.

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

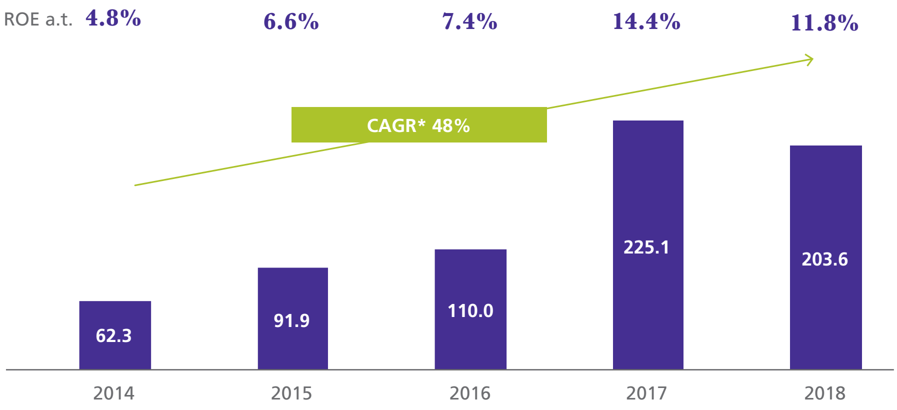
Strong result achieved in all Core markets and activities[14] of the Group

The Core markets and activities achieved a profit before tax of EUR 201.0 million, up 2% from 2017. Strategic foreign markets contributed the largest share to positive profit before tax in the amount of EUR 99.7 million, down 2% YoY, and included the positive effect from non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million. The profit before tax also decreased slightly, EUR 0.8 million or 2% YoY in the segment of Retail banking in Slovenia, but recorded a growth in the Corporate banking in Slovenia segment, of EUR 7.5 million or 14%.

Non-core markets and activities: The positive result of operations and continuing divestments

Non-core markets and activities performed in line with the restructuring plan and realised a profit of EUR 8.2 million, EUR 22.9 million or 74% lower YoY due to non-recurring income of the segment in 2017[15].

The segment Other activities includes categories in the Bank whose operating results cannot be allocated to individual segments. The result of this segment was negative, by EUR 2.3 million.



* Compound Annual Growth Rate.

Figure 9: Profit after tax of NLB Group (in EUR million)/ROE after tax (in %)

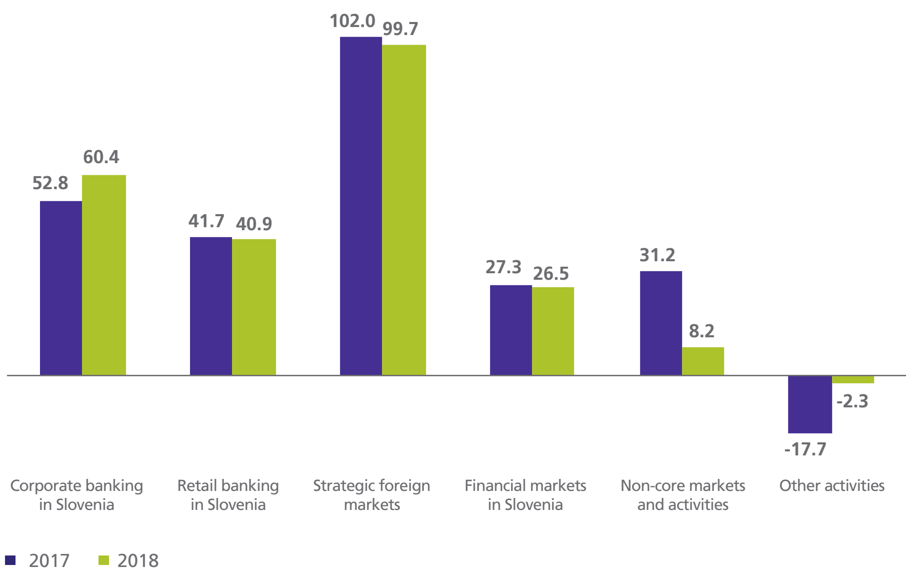


Figure 10: Profit before tax of NLB Group by segments (in EUR million)

Income statement

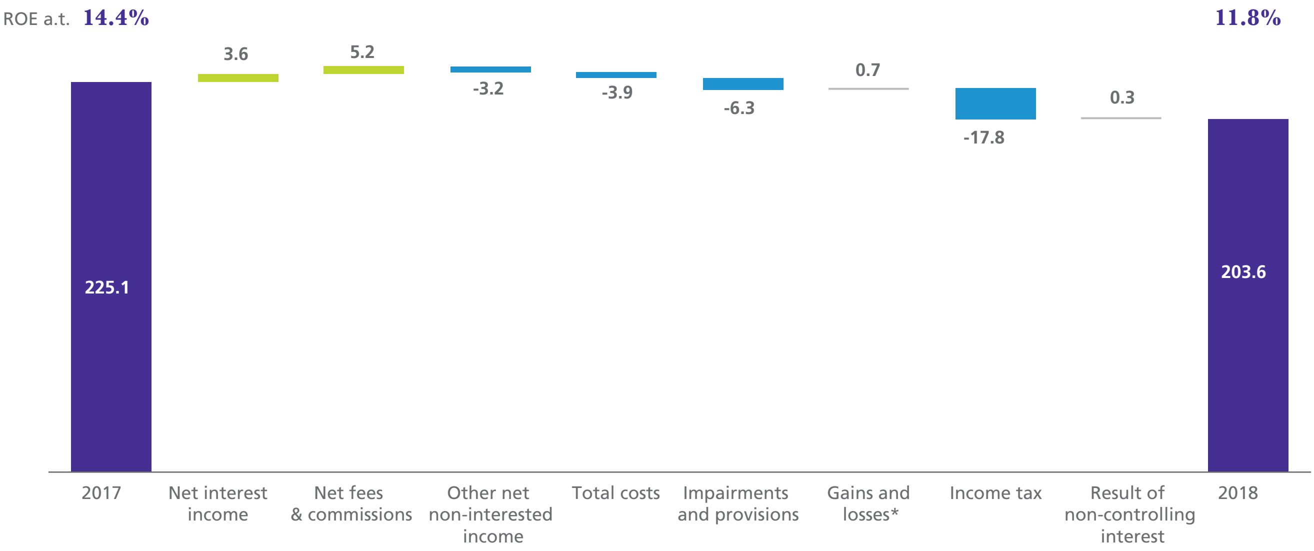
Table 10: Income statement of NLB Group and NLB

in EUR million

	NLB Group										
	2018	2017	Change YoY		Q4 18	Q3 18	Q2 18	Q1 18	Q4 17	Change QoQ	
Net interest income	312.9	309.3	3.6	1%	81.0	80.2	76.7	75.0	80.6	0.9	1%
Net fee and commission income	160.6	155.4	5.2	3%	40.7	40.4	40.2	39.3	40.2	0.3	1%
Dividend income	0.1	0.2	-0.1	-34%	0.0	0.0	0.1	0.0	0.0	0.0	-25%
Net income from financial transactions	14.7	26.7	-12.0	-45%	3.1	5.0	3.9	2.7	4.2	-1.9	-38%
Net other income	4.9	-3.9	8.8	-	-0.5	0.3	-8.2	13.3	-2.6	-0.8	-
Net non-interest income	180.4	178.4	2.0	1%	43.3	45.7	36.0	55.4	41.8	-2.5	-5%
Total net operating income	**493.3**	**487.7**	**5.6**	**1%**	**124.3**	**125.9**	**112.7**	**130.4**	**122.4**	**-1.6**	**-1%**
Employee costs	-165.1	-164.5	-0.6	0%	-43.2	-41.1	-40.6	-40.3	-43.9	-2.1	-5%
Other general and administrative expenses	-96.3	-92.4	-3.9	-4%	-28.4	-22.5	-23.1	-22.3	-26.0	-5.9	-26%
Depreciation and amortisation	-27.2	-27.8	0.6	2%	-6.7	-6.9	-6.8	-6.8	-7.0	0.1	2%
Total costs	**-288.7**	**-284.7**	**-3.9**	**-1%**	**-78.3**	**-70.4**	**-70.6**	**-69.4**	**-76.9**	**-7.9**	**-11%**
Result before impairments and provisions	**204.6**	**203.0**	**1.6**	**1%**	**46.0**	**55.5**	**42.1**	**61.0**	**45.6**	**-9.5**	**-17%**
Impairments and provisions for credit risk	30.2	43.4	-13.2	-30%	7.0	7.6	12.3	3.3	6.6	-0.6	-8%
Other impairments and provisions	-6.9	-13.9	7.0	50%	-2.7	-3.0	-0.8	-0.5	-14.3	0.3	10%
Impairments and provisions	23.3	29.5	-6.3	-21%	4.3	4.6	11.6	2.8	-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	1.4	1.2	1.0	-0.2	-14%
Result before tax	**233.3**	**237.3**	**-4.0**	**-2%**	**51.7**	**61.7**	**55.0**	**65.0**	**38.9**	**-10.0**	**-16%**
Income tax	-21.8	-4.0	-17.8	-	-5.1	-6.0	-6.3	-4.3	3.2	0.9	15%
Result of non-controlling interests	7.9	8.2	-0.3	-4%	1.2	2.2	1.5	3.0	1.0	-1.0	-44%
Result after tax	**203.6**	**225.1**	**-21.4**	**-10%**	**45.3**	**53.5**	**47.2**	**57.7**	**41.1**	**-8.2**	**-15%**

in EUR million

	NLB										
	2018	2017	Change YoY		Q4 18	Q3 18	Q2 18	Q1 18	Q4 17	Change QoQ	
Net interest income	158.0	158.8	-0.8	0 %	40.5	40.4	39.2	38.0	42.4	0.1	0 %
Net fee and commission income	100.2	98.5	1.7	2 %	24.8	25.1	25.5	24.8	25.1	-0.4	-1 %
Dividend income	49.7	58.1	-8.4	-14 %	0.0	0.0	41.1	8.5	10.0	0.0	0 %
Net income from financial transactions	8.4	17.0	-8.5	-50 %	1.5	3.1	2.7	1.2	2.1	-1.6	-52 %
Net other income	7.1	-2.2	9.3	-	1.6	3.1	-7.5	9.9	-2.1	-1.5	-48 %
Net non-interest income	165.4	171.3	-5.9	-3 %	27.9	31.3	61.8	44.4	35.1	-3.4	-11 %
Total net operating income	**323.4**	**330.1**	**-6.7**	**-2 %**	**68.3**	**71.7**	**101.0**	**82.4**	**77.5**	**-3.3**	**-5 %**
Employee costs	-103.8	-103.7	-0.1	0 %	-27.6	-25.8	-25.3	-25.2	-28.0	-1.8	-7 %
Other general and administrative expenses	-57.6	-54.2	-3.4	-6 %	-17.7	-13.2	-13.6	-13.1	-15.0	-4.5	-34 %
Depreciation and amortisation	-17.5	-18.0	0.5	3 %	-4.4	-4.4	-4.4	-4.3	-4.5	-0.1	-2 %
Total costs	**-179.0**	**-175.9**	**-3.1**	**-2 %**	**-49.8**	**-43.4**	**-43.2**	**-42.6**	**-47.5**	**-6.4**	**-15 %**
Result before impairments and provisions	**144.4**	**154.2**	**-9.8**	**-6 %**	**18.6**	**28.3**	**57.8**	**39.8**	**30.0**	**-9.7**	**-34 %**
Impairments and provisions for credit risk	29.8	41.5	-11.7	-28 %	11.7	6.7	13.2	-1.7	20.9	5.0	75 %
Other impairments and provisions	3.2	-10.8	14.1	-	3.1	-0.4	0.5	0.0	-11.2	3.6	-
Impairments and provisions	33.1	30.7	2.4	8 %	14.8	6.3	13.7	-1.7	9.8	8.6	137 %
Gains less losses from capital investments in subsidiaries, associates, and joint ventures	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	-
Result before tax	**177.5**	**184.9**	**-7.4**	**-4 %**	**33.4**	**34.5**	**71.5**	**38.1**	**39.7**	**-1.1**	**-3 %**
Income tax	-12.2	4.2	-16.4	-	-2.7	-3.3	-4.6	-1.6	4.1	0.6	18 %
Result after tax	**165.3**	**189.1**	**-23.8**	**-13 %**	**30.7**	**31.2**	**66.8**	**36.5**	**43.8**	**-0.5**	**-2 %**



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

Figure 11: Profit after tax of NLB Group (in EUR million) – evolution YoY

Result reflects business growth at stable interest margins and negative cost of risk

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 level 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%; strong growth was realised in the Retail segment in Slovenia (4%) and in Strategic foreign markets (4%).
- Total 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 the 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 the increase of deferred tax assets to the amount that is expected to be reversed in the foreseeable future (i.e. within five years).
- Non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje, in the positive amount of EUR 12.2 million.
- Non-recurring effect from the sale of 28.13% minority stake in Skupna pokojninska družba in the negative amount of EUR 0.5 million.

Despite a competitive market environment and strong competition, all banks in the Group generated a profit.

The result of the Bank decreased by 13% YoY to EUR 165.3 million from the exceptional EUR 189.1 million achieved in 2017. The main reason is EUR 16.4 million higher income tax and EUR 8.4 million lower dividend income from core subsidiaries, associates, and joint ventures which amounted to EUR 49.7 million. In October 2018, the Bank paid dividends in the amount of EUR 270.6 million to its shareholders (EUR 189.1 million of profit for fiscal year 2017 and EUR 81.5 million of retained profit from previous years).

Lower profits compared to the previous year in NLB Banka Skopje, and NLB Banka Banja Luka were mostly due to the lower release of impairments and provisions. Significant improvement was recorded in the Serbian and Montenegro markets, and a favourable result was also achieved in NLB Banka Sarajevo and NLB Banka Prishtina.

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.

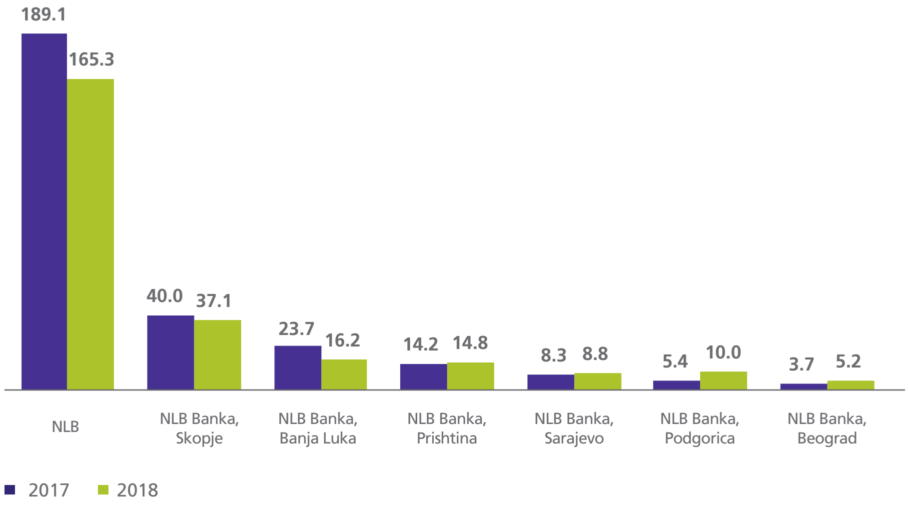


Figure 12: Profit after tax of NLB Group banks (on a stand-alone basis) – evolution (in EUR million)

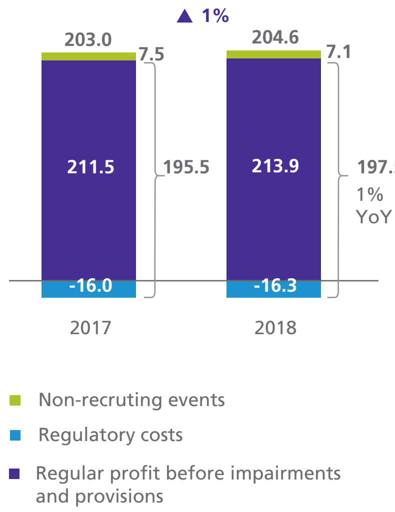


Figure 13: Profit before impairments and provisions of NLB Group (in EUR million)

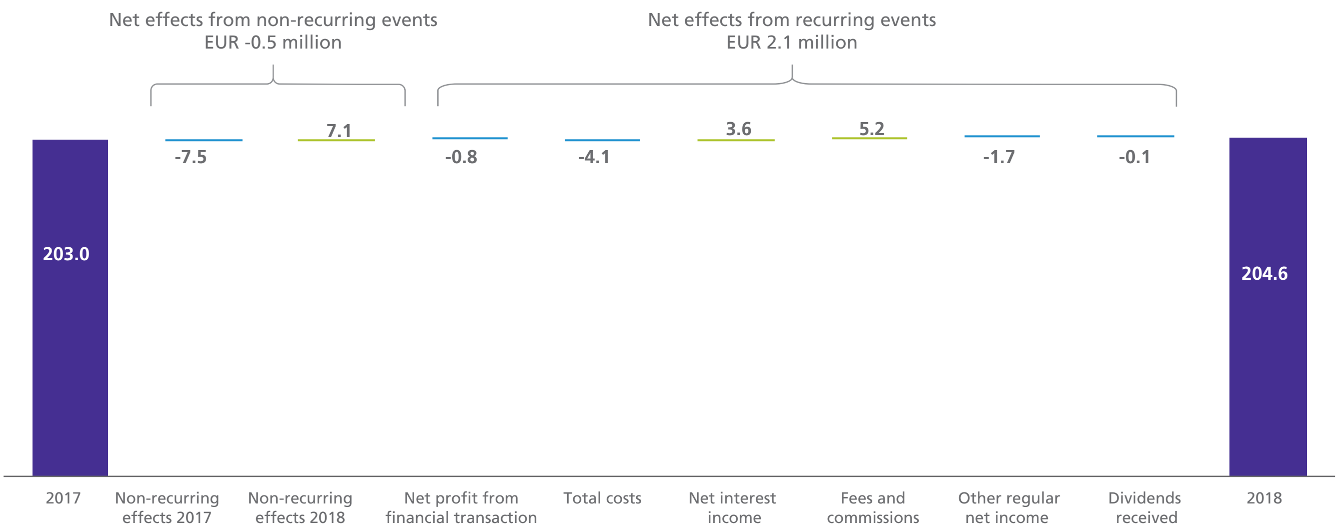


Figure 14: Profit before impairments and provisions of NLB Group – evolution YoY (in EUR million)

Net interest income

Net interest income of the Group accounted for 63% of the Group's total net revenues, increasing by 1% YoY to EUR 312.9 million, supported by a higher net interest income in the Retail banking in Slovenia segment (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.

Net interest income was negatively affected by lower interest rates on assets, which was partly reduced by higher loan volume growth, while the positive effects derived from active discipline on deposit pricing as a reinvestment of due deposits was performed at a lower interest rate and due to the maturity of the Bank's bond in July 2017 (EUR 300 million bond issued in July 2014).

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.

The net interest income of the Key business activities[16] 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.

Despite strong price pressures the net interest income in the Retail banking in Slovenia increased by EUR 6.6 million, or 9% YoY as a result of of 6% loan growth and rising active interest rates on the new loan production.

16. Key business activities include key/mid/small corporates in Slovenia, Retail banking in Slovenia and Strategic foreign markets.

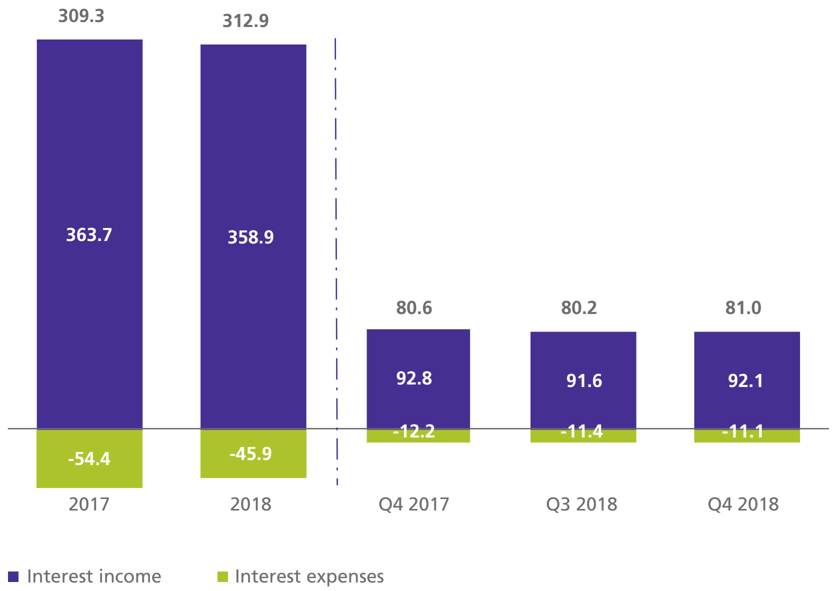


Figure 15: Net interest income of NLB Group (in EUR million)

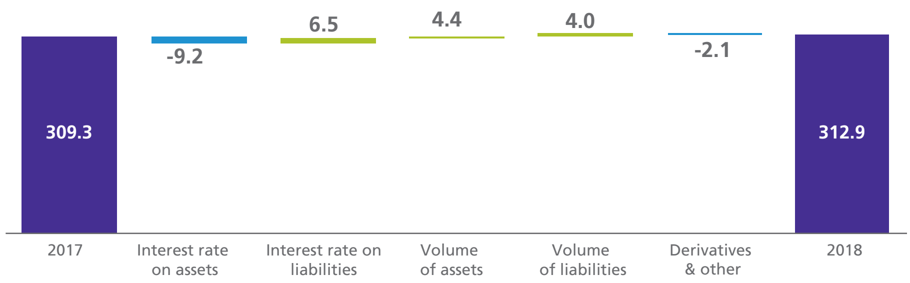


Figure 16: Effects on net interest income change (in EUR million) – evolution YoY

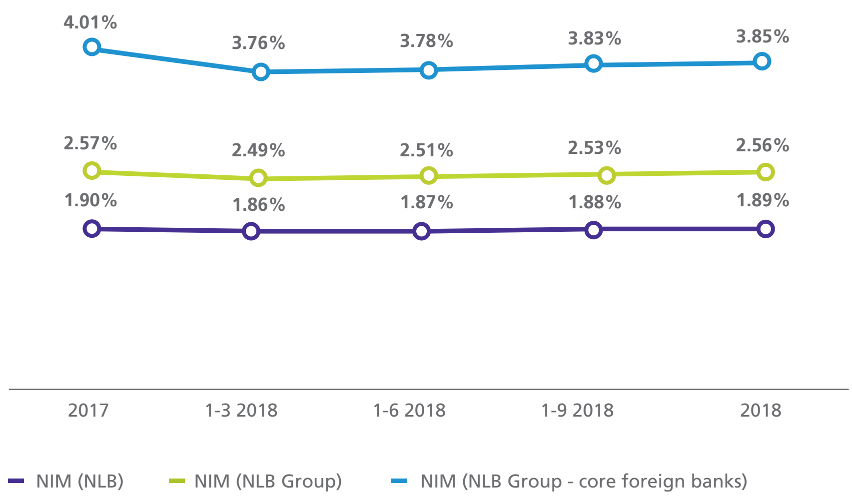


Figure 17: Net interest margin of NLB Group (in %)

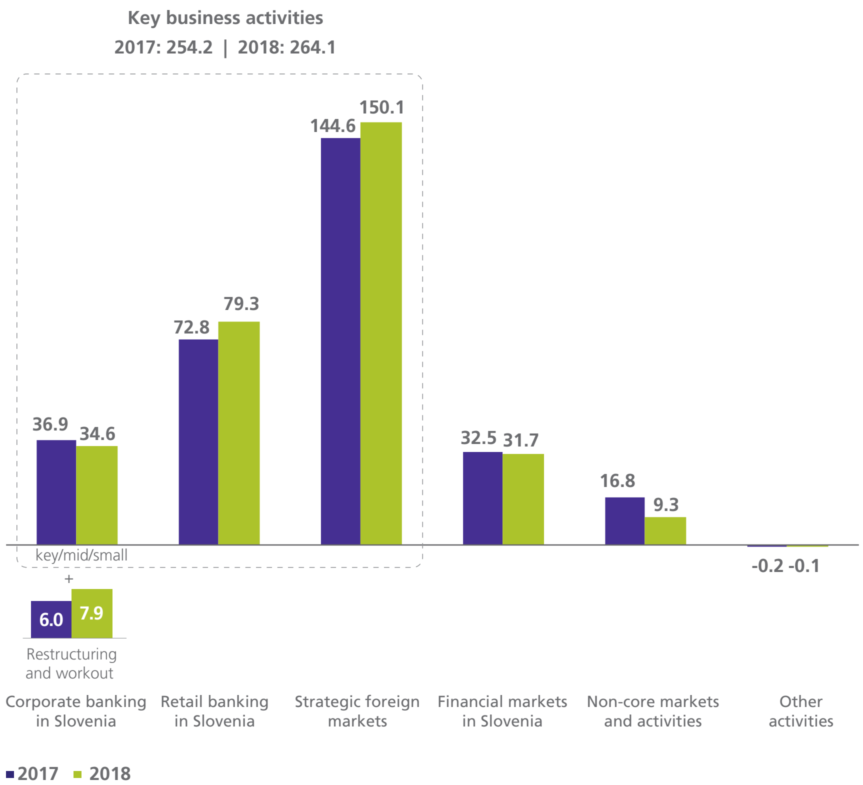


Figure 18: Net interest income of NLB Group by segments (in EUR million)

Strategic foreign markets improved net interest income by EUR 5.5 million or 4%, due to 10% or EUR 272.1 million YoY increase of gross loan volumes.

The net interest income in Financial markets decreased slightly by 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 the still low yielding environment), and due to higher expenses resulting from the increased level of excess liquidity.

The net interest income in non-core markets and activities was lower and amounted to EUR 9.3 million (2017: EUR 16.8 million) as a result of a lower volume of operations according to the restructuring plan.

Net non-interest income

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). The net non-interest income was affected also by 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[17]) 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 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 assets management.

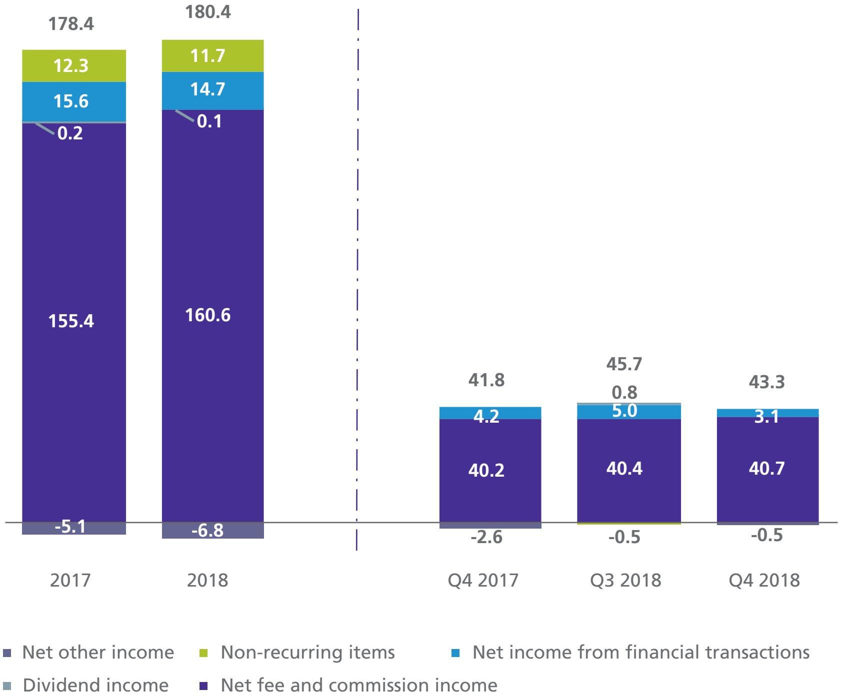


Figure 19: Net non-interest income of NLB Group (in EUR million)

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

The net non-interest income of Key business activities continues to increase in Corporate banking in Slovenia (EUR 3.1 million or 10% YoY) and Strategic foreign markets (EUR 16.8 million or 36% YoY). Despite EUR 2.8 million or a 4% higher net fee and commission income, 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 28.13% minority stake in Skupna pokojninska družba d.d. (EUR -0.5 million).

The Non-core markets and activities segment recorded a EUR 5.2 million of net non-interest income, EUR 18.0 million or 78% lower YoY, due to the non-recurring income in 2017 from successful divestment of non-core subsidiaries[18].

Operating costs

Total costs amounted to EUR 288.7 million (of which EUR 1.7 million comprised of non-recurring costs related to restructuring and the privatisation process, 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).

Depreciation and amortization decreased by 2% YoY, while employee costs, including performance rewards, remained stable.

As a result, the CIR amounted to 58.5%, and thus remained on the level of the previous year.

18. Please refer to note 15.

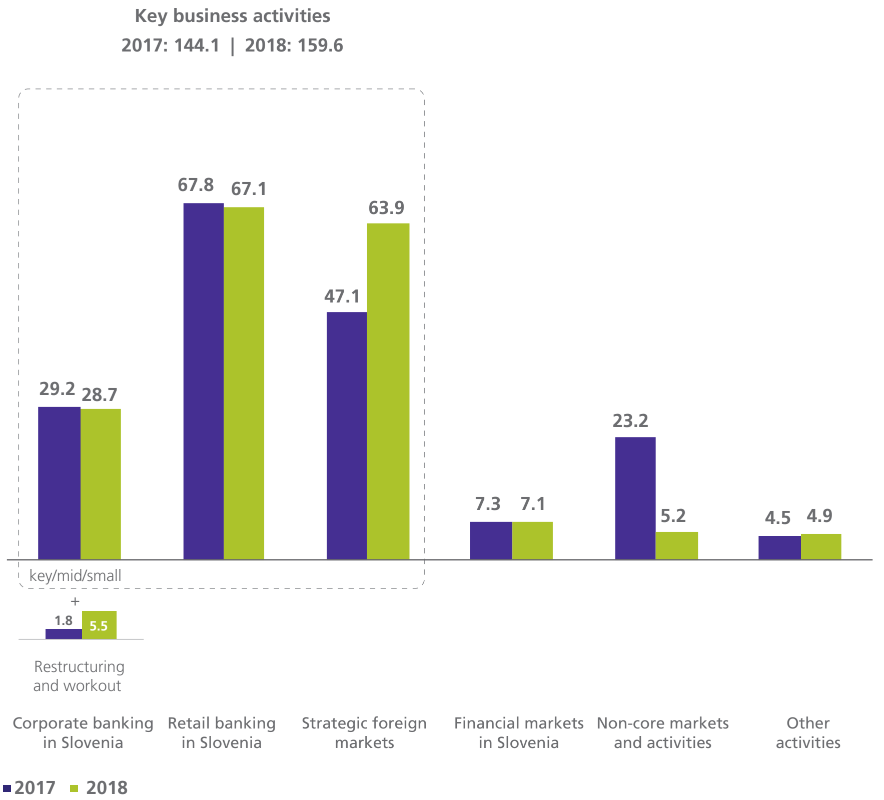


Figure 20: Net non-interest income by segments of NLB Group (in EUR million)

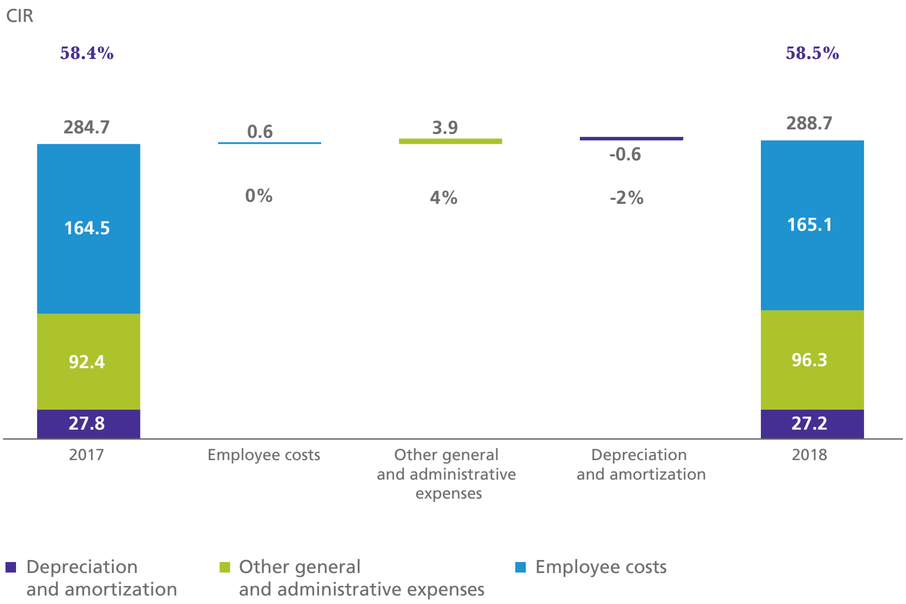


Figure 21: Total costs of NLB Group (in EUR million) – evolution YoY

Release of net impairments and provisions

In 2018, the Group released EUR 23.3 million of 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. The 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).

Asset quality

The Group's lending strategy focuses on its core markets of retail, SME, and selected corporate business activities in the SEE region. 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 an early warning system for detecting increased credit risk. The efforts led to cumulatively very low new NPLs formation in the amount of EUR 64 million, of which only EUR 19 million comes from new business, which represents 0.2% of the total portfolio.

Gross NPL formation has been low since 2015.

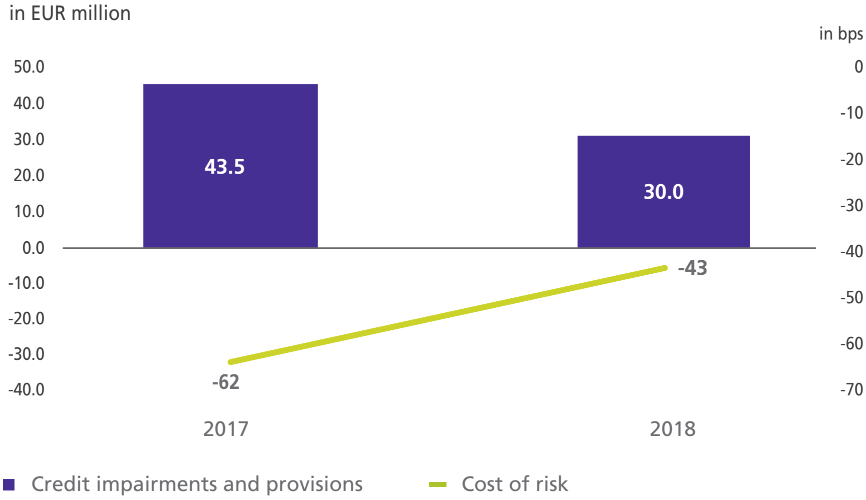


Figure 22: NLB Group credit impairments and provisions (in EUR million) and cost of risk (in bps)

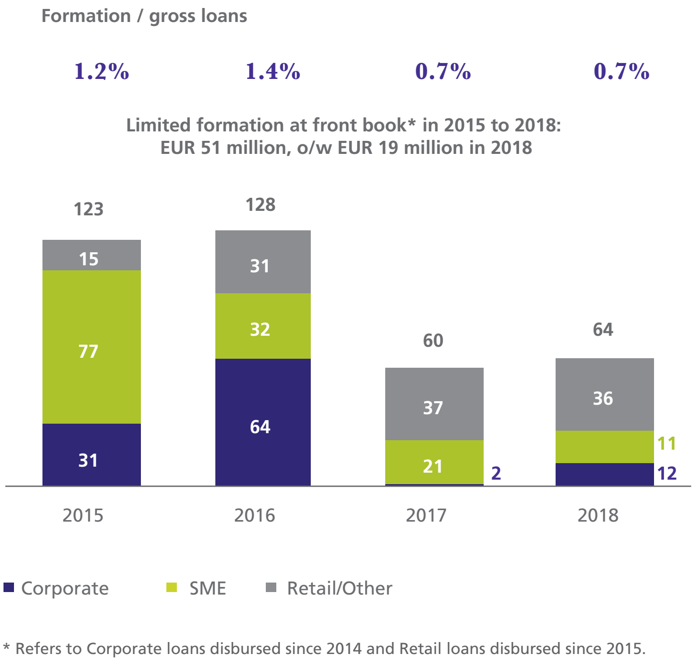


Figure 23: NLB Group gross NPL formation (in EUR million)

Statement of financial position

Table 11: Statement of financial position of NLB Group and NLB

in EUR million

	NLB Group										
	31 Dec 2018	31 Dec 2017	Change YoY		31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	Change QoQ	
ASSETS											
Cash, cash balances at central banks, and other demand deposits at banks	1,588.3	1,256.5	331.9	26 %	1,588.3	1,557.4	1,298.7	1,341.4	1,256.5	31.0	2 %
Loans to banks	118.7	510.1	-391.4	-77 %	118.7	402.0	453.7	553.2	510.1	-283.3	-70 %
Loans to customers	7,148.4	6,994.5	154.0	2 %	7,148.4	7,080.9	7,059.0	6,935.3	6,994.5	67.5	1 %
Gross loans	7,627.5	7,641.2	-13.7	0 %	7,627.5	7,618.7	7,611.9	7,500.9	7,641.2	8.7	0 %
- Corporate	3,540.4	3,705.0	-164.6	-4 %	3,540.4	3,561.5	3,621.6	3,555.8	3,705.0	-21.1	-1 %
- Individuals	3,726.5	3,470.2	256.4	7 %	3,726.5	3,663.5	3,588.0	3,515.7	3,470.2	63.1	2 %
- State	360.5	466.0	-105.5	-23 %	360.5	393.8	402.3	429.4	466.0	-33.3	-8 %
Impairments and valuation of loans to customers	-479.0	-646.8	167.7	26 %	-479.0	-537.8	-552.9	-565.6	-646.8	58.8	11 %
Financial assets	3,399.2	2,963.4	435.8	15 %	3,399.2	3,276.7	3,214.1	3,070.3	2,963.4	122.6	4 %
- Trading book	63.6	72.2	-8.6	-12 %	63.6	45.2	67.5	47.9	72.2	18.4	41 %
- Non-trading book	3,335.6	2,891.2	444.4	15 %	3,335.6	3,231.4	3,146.7	3,022.4	2,891.2	104.2	3 %
Investments in subsidiaries, associates, and joint ventures	37.1	43.8	-6.6	-15 %	37.1	37.8	42.3	43.5	43.8	-0.6	-2 %
Property and equipment, investment property	236.0	240.2	-4.1	-2 %	236.0	234.0	235.8	239.2	240.2	2.0	1 %
Intangible assets	35.0	35.0	0.0	0 %	35.0	31.1	32.7	33.6	35.0	3.9	12 %
Other assets	177.1	194.4	-17.2	-9 %	177.1	163.9	179.8	208.1	194.4	13.3	8 %
TOTAL ASSETS	**12,740.0**	**12,237.7**	**502.3**	**4 %**	**12,740.0**	**12,783.7**	**12,516.2**	**12,424.6**	**12,237.7**	**-43.7**	**0 %**
LIABILITIES											
Deposits from customers	10,464.0	9,879.0	585.0	6 %	10,464.0	10,246.7	10,018.0	9,938.9	9,879.0	217.3	2 %
- Corporate	2,337.3	2,260.1	77.2	3 %	2,337.3	2,310.0	2,203.6	2,199.6	2,260.1	27.3	1 %
- Individuals	7,865.6	7,362.9	502.7	7 %	7,865.6	7,656.7	7,548.4	7,464.6	7,362.9	208.9	3 %
- State	261.1	256.0	5.1	2 %	261.1	280.0	266.0	274.7	256.0	-18.9	-7 %
Deposits form banks and central banks	26.8	40.6	-13.8	-34 %	26.8	43.3	39.1	36.4	40.6	-16.5	-38 %
Debt securities in issue	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	-
Borrowings	320.3	353.9	-33.6	-10 %	320.3	329.6	333.6	342.9	353.9	-9.3	-3 %
Other liabilities	256.5	248.7	7.8	3 %	256.5	264.3	275.9	286.8	248.7	-7.8	-3 %
Subordinated liabilities	15.1	27.4	-12.3	-45 %	15.1	15.3	15.0	27.3	27.4	-0.2	-2 %
Equity	1,616.2	1,653.6	-37.3	-2 %	1,616.2	1,844.5	1,796.7	1,752.8	1,653.6	-228.3	-12 %
Non-controlling interests	41.2	34.6	6.6	19 %	41.2	40.1	37.9	39.5	34.6	1.2	3 %
TOTAL LIABILITIES AND EQUITY	**12,740.0**	**12,237.7**	**502.4**	**4 %**	**12,740.0**	**12,783.7**	**12,516.2**	**12,424.6**	**12,237.7**	**-43.7**	**0 %**

in EUR million

	NLB										
	31 Dec 2018	31 Dec 2017	Change YoY		31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	Change QoQ	
ASSETS											
Cash, cash balances at central banks, and other demand deposits at banks	795.1	570.0	225.1	39 %	795.1	820.9	660.9	680.2	570.0	-25.8	-3 %
Loans to banks	110.3	462.3	-352.0	-76 %	110.3	380.3	448.6	489.6	462.3	-270.0	-71 %
Loans to customers	4,478.1	4,669.6	-191.5	-4 %	4,478.1	4,513.8	4,547.4	4,546.8	4,669.6	-35.7	-1 %
Gross loans	4,703.7	4,986.7	-283.0	-6 %	4,703.7	4,760.6	4,808.2	4,825.2	4,986.7	-57.0	-1 %
- corporate	2,190.3	2,502.5	-312.2	-12 %	2,190.3	2,248.1	2,329.6	2,345.1	2,502.5	-57.8	-3 %
- individuals	2,241.6	2,121.2	120.5	6 %	2,241.6	2,210.5	2,168.0	2,146.3	2,121.2	31.1	1 %
- state	271.7	363.1	-91.3	-25 %	271.7	302.0	310.6	333.8	363.1	-30.3	-10 %
Impairments and valuation of loans to customers	-225.6	-317.1	91.5	29 %	-225.6	-246.8	-260.8	-278.4	-317.1	21.2	9 %
Financial assets	2,869.5	2,460.3	409.2	17 %	2,869.5	2,759.5	2,681.9	2,555.0	2,460.3	109.9	4 %
- Trading book	63.6	72.2	-8.6	-12 %	63.6	45.2	67.5	47.9	72.2	18.4	41 %
- Non-trading book	2,805.8	2,388.1	417.7	17 %	2,805.8	2,714.3	2,614.4	2,507.1	2,388.1	91.6	3 %
Investments in subsidiaries, associates, and joint ventures	355.5	356.9	-1.4	0 %	355.5	355.2	357.4	356.9	356.9	0.3	0 %
Property and equipment, investment property	99.0	96.3	2.7	3 %	99.0	96.3	94.8	95.4	96.3	2.7	3 %
Intangible assets	23.4	23.9	-0.5	-2 %	23.4	20.5	21.7	22.9	23.9	2.9	14 %
Other assets	80.3	73.5	6.8	9 %	80.3	89.2	95.8	103.8	73.5	-8.9	-10 %
TOTAL ASSETS	**8,811.0**	**8,712.8**	**98.2**	**1 %**	**8,811.0**	**9,035.7**	**8,908.3**	**8,850.5**	**8,712.8**	**-224.7**	**-2 %**
LIABILITIES											
Deposits from customers	7,033.4	6,811.6	221.8	3 %	7,033.4	6,986.8	6,879.4	6,864.9	6,811.6	46.6	1 %
- corporate	1,392.2	1,434.7	-42.5	-3 %	1,392.2	1,423.8	1,393.8	1,424.0	1,434.7	-31.7	-2 %
- individuals	5,522.1	5,252.3	269.9	5 %	5,522.1	5,435.0	5,373.1	5,310.6	5,252.3	87.1	2 %
- state	119.1	124.7	-5.6	-4 %	119.1	127.9	112.5	130.3	124.7	-8.8	-7 %
Deposits form banks and central banks	48.9	72.1	-23.2	-32 %	48.9	57.7	55.5	59.7	72.1	-8.8	-15 %
Debt securities in issue	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	-
Borrowings	248.3	266.5	-18.2	-7 %	248.3	256.9	257.4	265.1	266.5	-8.7	-3 %
Other liabilities	185.2	181.5	3.8	2 %	185.2	198.9	207.1	217.6	181.5	-13.6	-7 %
Subordinated liabilities	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	-
Equity	1,295.2	1,381.2	-86.0	-6 %	1,295.2	1,535.5	1,508.8	1,443.2	1,381.2	-240.3	-16 %
Non-controlling interests	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	-
TOTAL LIABILITIES AND EQUITY	**8,811.0**	**8,712.8**	**98.2**	**1 %**	**8,811.0**	**9,035.7**	**8,908.3**	**8,850.5**	**8,712.8**	**-224.7**	**-2 %**

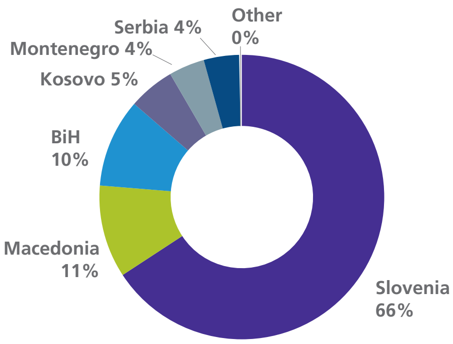


Figure 24: NLB Group total assets by country (in %)*

* Geographical analysis based on location of Group member's headquarter.

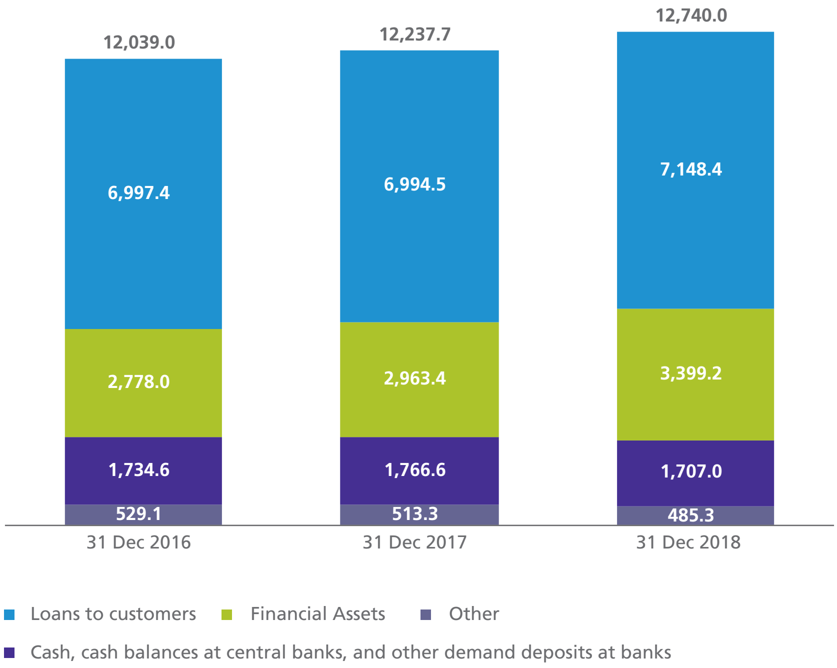


Figure 25: Total assets of NLB Group (in EUR million) – structure

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.

Assets

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

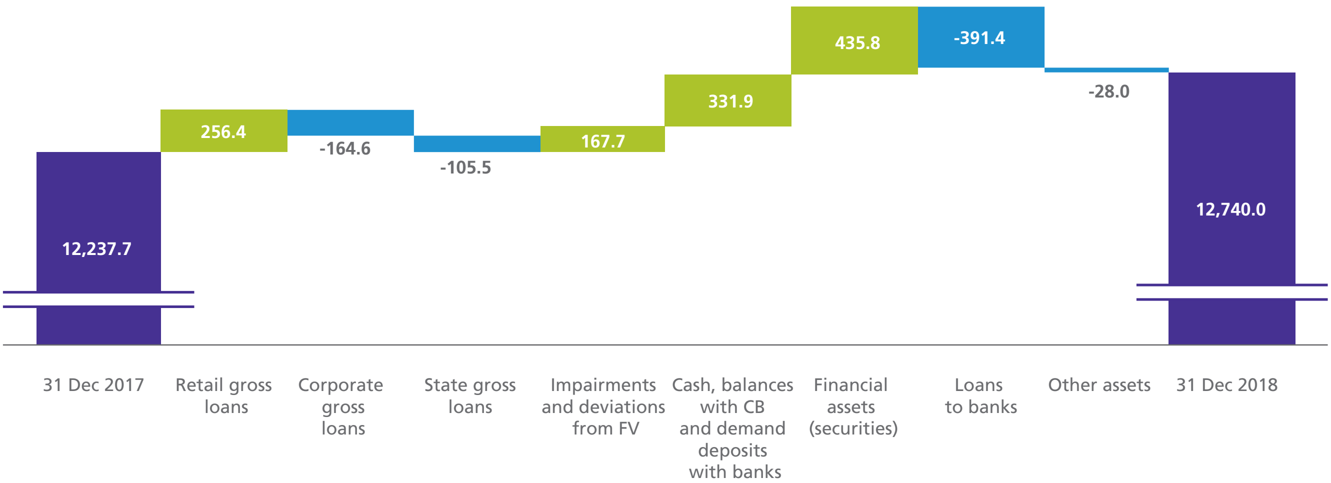


Figure 26: Key changes of NLB Group assets (in EUR million)

The Group recorded loan growth to individuals (6% YoY), while the contraction of the loan book persisted, which was reflected in the increased volume of the Group's liquid assets.

Gross loans in Key business activities increased slightly by EUR 223.1 million or 3% YoY. A significant decrease in gross loans of Key/Mid/Small corporates (EUR 170.0 million or 8% YoY) in Slovenia because of a high amount of matured loans, prepayment of several large exposures, and transfer of some assets to the restructuring segment was partially neutralised by strong volume growth in the Retail segment in Slovenia (6% YoY), and in Strategic foreign markets (10% YoY) with record growth in Kosovo, Montenegro, and Serbia.

The credit portfolio of the Group is well diversified, and there are no large concentrations in any specific client segment or industry. The majority of the credit portfolio refers to euro currency, while the rest originates from local currencies of the Group banking members. From interest rate type, half of the credit portfolio is linked to the fixed interest rate, and the rest to floating rate (mostly to the Euribor reference rate).

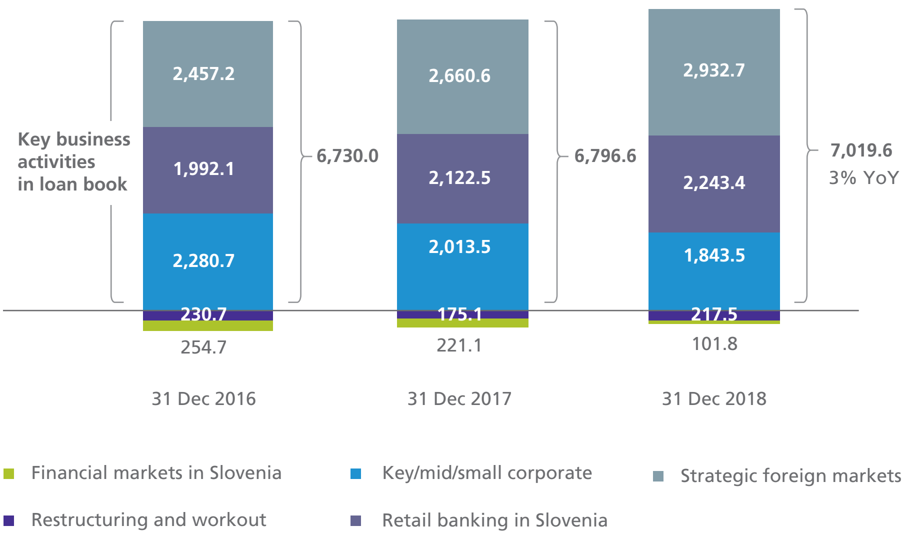
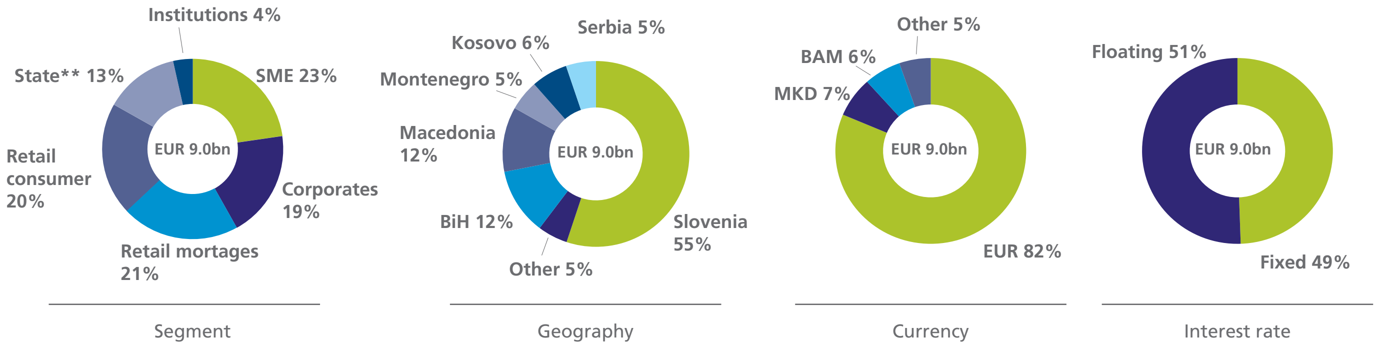


Figure 27: NLB Group gross loans to customers by core segments (in EUR million)



* Includes drawn loans as well as used limits on current account or on credit cards.
** State includes exposures to Central Banks.

Figure 28: Credit portfolio* by segment, geography, currency, and rate type

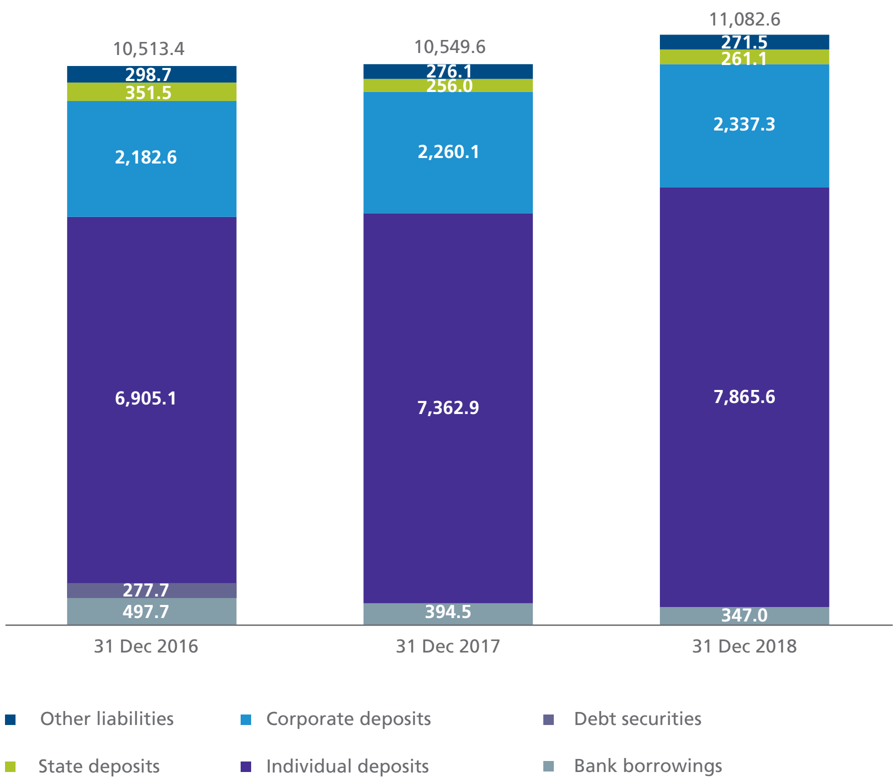


Figure 29: Total liabilities of NLB Group – structure (in EUR million)

Liabilities

Total liabilities increased slightly and amounted to EUR 11,082.6 million. Deposits accounted for 94% of the total funding of the Group and increased by 6% YoY.

The Group's funding base is dominated by customer deposits accounting for 82% of total assets in which sight deposits prevail (79%, compared to 74% as at year-end 2017). The majority of customer deposits (75%) were from retail. Sixty-seven per cent of deposits were collected in Slovenia, and the rest at core foreign subsidiaries. Wholesale funding activities in the Group are conducted with the aim of achieving diversification, improving structural liquidity, and fulfilling regulatory requirements.

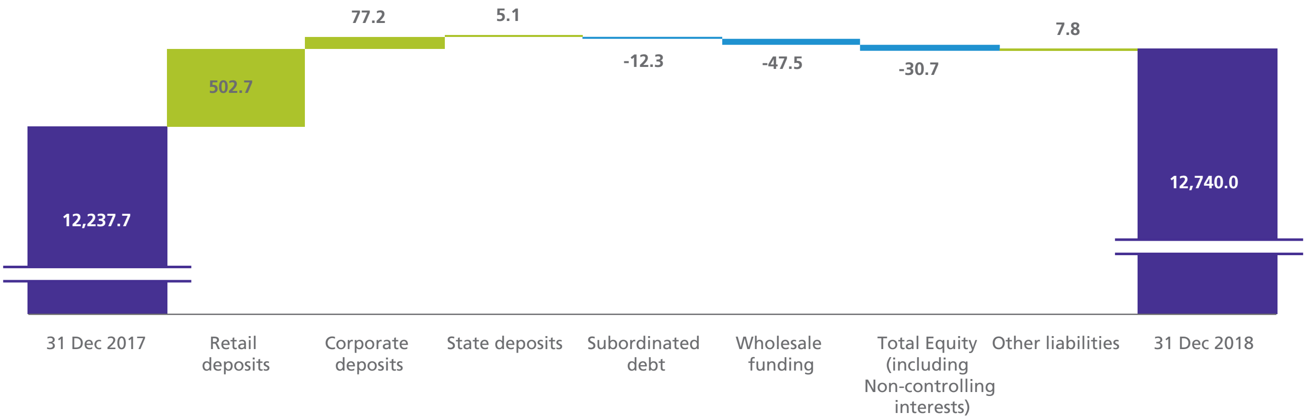


Figure 30: Key changes of NLB Group liabilities and capital (in EUR million)

Due to a solid liquidity position, the Bank and its Group members did not raise any new wholesale long-term funds.

The LTD ratio was 68.3% at the Group level; a decrease of 2.5 p.p. YoY as a result of increased deposits, which was partially neutralizes by growing, but still moderate demand for loan. As a result of the low interest rate environment, the maturity of deposits continue to shorten, while loans maturities are lengthening. That increases the maturity mismatch between investments and funding.

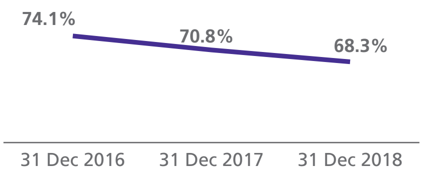


Figure 32: LTD ratio movement

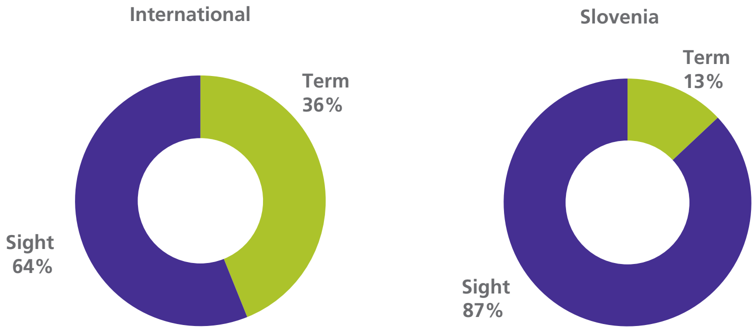


Figure 31: Deposits from customers by type

Capital and capital adequacy

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

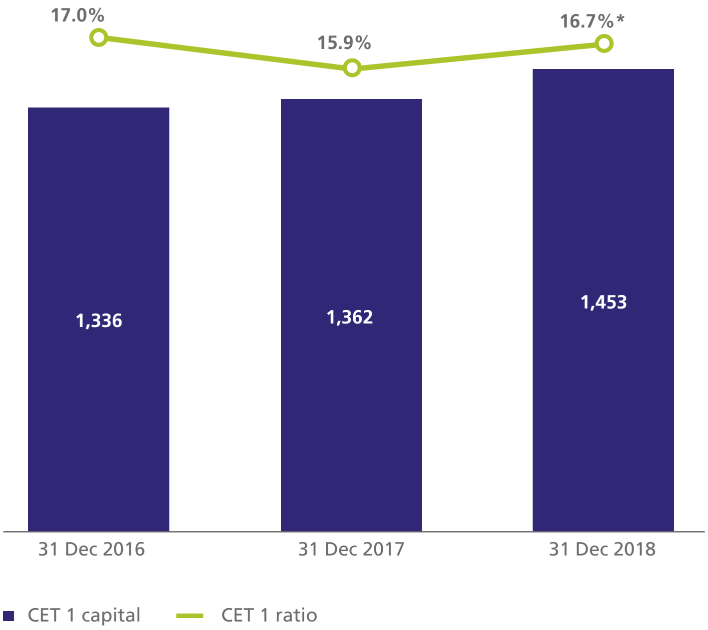
- 11.50% TSCR (8% Pillar 1 Requirement and 3.50% Pillar 2 Requirement); and
- 1.875% CBR (1.875% Capital conservation buffer and 0% Countercyclical buffer).

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.

From 1 March 2019, NLB is required to maintain the OCR on the level of 14.75% on a consolidated basis, consisting of:

- 11.25% TSCR (8% Pillar 1 Requirement and 3.25% Pillar 2 Requirement); and
- 3.5% CBR (2.5% Capital conservation buffer, 1% O-SII buffer and 0% Countercyclical buffer).

The increase of the requirement in comparison to the 2018 level is mainly due to the phasing-in of the capital conservation buffer and the implementation of the O-SII buffer. On the other hand, Pillar 2 Requirement decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment.



* CET 1 includes the H1 2018 result of EUR 109 million.

Figure 33: NLB Group CET 1 capital (in EUR million) and CET 1 ratio (in %)

The capital of the Bank and the Group consists of the components of top quality CET 1 capital, which is why all three capital ratios are the same. It remained strong, at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, as well as the Pillar 2 Guidance.

At the end of 2018, the capital ratio for the Group stood at 16.7% (or 0.8 p.p. higher than at the end of 2017), and for the Bank at 24.1% (or 2.3 p.p. higher than at the end of 2017). The improvement of capital adequacy derives from higher capital, mainly due to the inclusion of the H1 2018 result (EUR 108.8 million for the Group), lower retained earnings (EUR - 81.5 million) as part of the 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.

The Bank intends to further strengthen and also optimize NLB Group capital structure by issuing a Tier 2 instrument in 2019.

Table 12: 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 on the retail segment (EUR 244.2 million), and on the corporate segment (EUR 158.7 million) as a consequence of increased business. The increase in RWA for market risks and 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.

Further information on capital and capital adequacy is available in the Note 5.25 to the Audited Annual Financial Statements.

Liquidity position

The Group liquidity remains exceptionally strong, with a significant level of liquid assets in total assets (41%) that is reflected in the LCR ratio standing at 361%, compared to 276% as at 31 December 2017. The Group holds a comfortable liquidity position at both the Group and subsidiary bank levels, standing well above the targeted risk appetite profile.

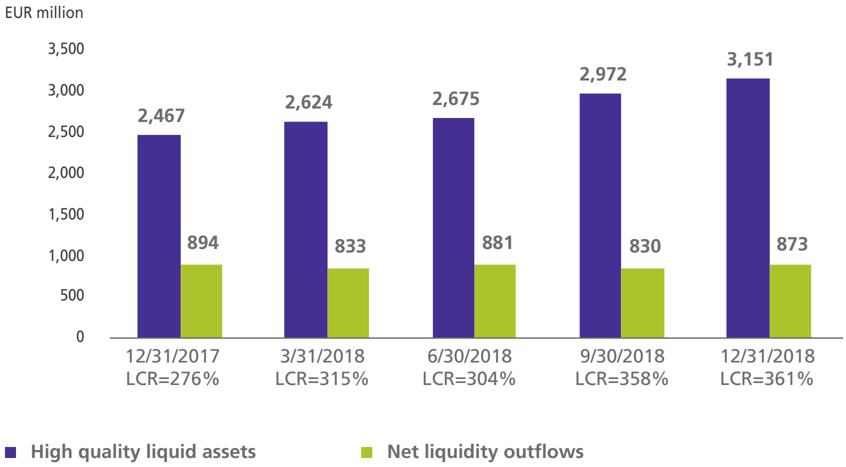


Figure 34: LCR quarterly dynamic of NLB Group

Chapter 6

NLB Group Strategy

The Group has successfully undertaken a restructuring strategy since 2016, thereby stabilised its business and returned to profit in all of its core markets. The Group is now facing more solid macroeconomic conditions and improving banking sector performance across SEE markets. Following a successful conclusion of the Bank's first phase of privatisation, the Group is further evolving into a regional champion, and is now even more equipped to face future challenges in order to sustain its profitability and achieve growth.

Current strategy

The Group continues to pursue its vision to become innovative with simple, customer-oriented solutions focused on Slovenia and SEE countries.

The key priorities of the Group's strategy remain as follows:

- Innovative solutions addressing customer needs (omnichannel distribution, end-to-end solutions, and partnership programmes)
- Simplicity (simple and understandable products, fast and low-cost processes, effective procurement, automation, etc.)
- A regional focus (reinforcing and strengthening strategic position, self-funded subsidiaries)
- Smart banking (focus on advisory rather than transaction services by branches, improvement of sales processes, value-creating insights from customer data)
- Measured risk-taking (improvements in credit processes, risk governance, modelling, and collections)
- Engaged employees (fostering cooperative and engaging working environment, initiatives to improve skills and capabilities, etc.).

Reassessment of the strategy

Following the successful conclusion of the Bank's first phase of privatisation, one of its priorities as a public company is to rethink and refresh its current strategy. The Bank has a new shareholder structure, and therefore new expectations. In addition, as a result of privatisation, some barriers imposed by the EC in relation to the state aid granted to the Bank do not exist anymore, and some of the remaining ones are clearly just temporary. Therefore, due to different business and market conditions, the current strategy needs to be reassessed and new goals and priorities set. The ambition is to define a new mid-term strategy that lasts until 2025.

Trends and opportunities

The Group's strategy and business model going forward may be affected by some of the following key trends and opportunities. Alongside the process of market consolidation that is currently undergoing in Slovenia and the region, the strategic endeavours are also influenced by challenging economic conditions, with a low interest rate environment and local and international regulatory interventions. In addition, more demanding and knowledgeable clients with a preference for digital channels on one side, and the emergence of fintech companies that represent lower cost competition on the other, are changing the traditional business models of the banking industry. The Group is already a technology leader among the banks in the SEE region. The Bank is further adapting by innovating new solutions based on customer insights through big-data and social media, and also by focusing on digitalisation.

Focusing on digitalisation

The Group recognised the importance of digital transformation and is continuing to direct comprehensive strategic efforts to digitalise both sales channels and internal operations such as workplace and process automation. This should create a significant positive impact on revenues and costs alike. It is expected from the new digital channels to expand the array of the Group's financial products and sales funnels, and also to contribute toward improved cross-selling activities. The latter is also one of the Group's prime focus points in terms of growth. On the cost side, the focus on digitalisation should bring better customer service, a higher level of process efficiency, and therefore additional labour cost savings. It may also initiate further rationalisation of the branch network in the future, due to a decreased number of personal client contacts just to execute a transaction.

Since successful digitalisation requires competitive IT infrastructure and capabilities, the Group will continue to invest significantly in these areas and according to perceived priorities.

EC commitments

The Group is still subject to restrictions imposed by the EC in relation to the state aid granted to the Bank in the past. Nonetheless, the successful completion of the Bank's first phase of the privatisation has fulfilled the main condition for most of the restrictions to be lifted. However, as the Bank has not been privatised to the full, pre-agreed extent (75% minus one share), some of the EC commitments remain in force until privatisation is fully executed (envisaged to be concluded by 31 December 2019). It is expected that the complete removal of EC restrictions may have profound impact on the Group's strategy, as this will open new opportunities for growth especially by conducting business that was restricted due to EC commitments (i.e. leasing, factoring). As the Group is well capitalised and exhibits excess liquidity, it is well-equipped to take advantage of such opportunities.

Until all commitments from the EC are removed, the Bank will not engage, and is not considering M&A opportunities. After removal of the EC commitments, the Bank could consider M&A opportunites in the region, only in close cooperation with other relevant NLB stakeholders.

One of these commitments implies the divestiture of NLB Vita, the insurance segment of the Group. It is considered as an important part of the Group, and as such is fully included in the strategic plans. However, as this potential divestiture represents a contingency in the function of EC commitments, it is hard to predict the outcome of negotiations with the EC now.

Brexit impact on NLB Group's performance

As the Group operations are related to the SEE region only, the estimation is that Brexit will not have any significant impact on the Group's business performance.

Mid-term targets

Based on the measures and potentials outlined above, the Bank has set the following medium-term financial targets for the Group as part of its five-year plan for the years 2019 to 2023, which were approved by the Supervisory Board in September 2018, and updated certain of the Group's "Strategy 2020" targets approved by the Supervisory Board in August 2016:

- net interest margin > 2.7%
- LTD < 95%
- total capital ratio approximately 17%[19]
- CIR approximately 50%
- cost of risk < 90 bps
- NPE ratio < 4%
- ROE > 12%
- dividend pay-out (as a percentage of the Group profits) ~ 70%

The mid-term targets and business strategy assume the continuation of economic growth in the SEE region. This will positively affect the growth of all loan segments. In addition, strategy in achieving these targets assumes gradual increase in Eurozone interest rates due to change in monetary policy.

The key risks to strategy that should be considered are market yields and interest rates not increasing and developing according to the Bank's assumptions, as well as lower economic growth and potential margin compression due to market competitiveness derived from recent consolidation of the banking industry in the region.

The indicated mid-term targets are only targets and not profit forecasts. The targets constitute forward-looking statements and are not guarantees of future financial performance.

Dividend policy

The payment of dividends by the Bank will depend on a number of factors, including the Bank's capital structure, risk appetite, profits, financial condition, regulatory requirements, general economic and business conditions, and future prospects.

As at 31 December 2018, the Group had CET 1 ratio of 16.7% which includes the H1 2018 result of EUR 109 million. The Bank intends to further strengthen and also optimize Group capital structure by issuing a Tier 2 instrument in 2019.

The Bank's future intention is to distribute dividends in excess of the Group's target total capital ratio. The said ratio currently amounts to 17%, however is under revision to reflect new (lower) capital requirement (TSCR) that is applicable as of 1 March 2019. The Bank's dividend policy envisages yearly distribution of dividends in the approximate amount of around 70% of the Group's profit.

Distributable profit as at 31 December 2018 amounts to EUR 194,491 thousand.

19. Target total capital ratio of around 17% will be regularly revised by competent bodies to reflect each time applicable capital requirements. As at 1 March 2019 new TSCR of 11.25% will be applicable (by then TSCR of 11.50% is applicable). For more information see the Capital and capital adequacy section of the Overview of NLB Group's financial performance chapter, and Events after the end of the 2018 financial year chapter.

Chapter 7

Regulatory Environment

During 2018, many changes in the EU and Slovenian regulatory requirement were adopted which the Bank implemented in its daily business. This chapter focuses on the material ones.

Regarding the Payment Services area, Payment Services and the Services of Issuing Electronic Money and Payments Systems Act (Zakon o plačilnih storitvah, storitvah izdajanja elektronskega denarja in plačilnih sistemih; ZPlaSSIED) was adopted in February 2018 that transposed the Directive 2015/2366 on payment services in the internal market (PSD2) into the national law. PSD2 extends the scope of payment services and their providers, more clearly defines the exceptions to these rules, improves cooperation and the exchange of information between authorities, and introduces stricter safety requirements for electronic payments. During 2018, in addition to aligning with the ZPlaSSIED, the Bank proceeded with implementation activities of directly applicable Regulatory Technical Standards (RTS) further regulating the PSD2 requirements, which will need to be complied with and affecting also, inter alia, the Application Programming Interface management PSD2 system availability. Therefore, the Bank's implementation activities also focused on: monitoring the requirements of the RTS on Strong Customer Authentication; common and secure communication that were adopted with the Commission Delegated Regulation (EU) 2018/389; Implementing Technical Standars on the details and structure of the information entered by competent authorities in their public registers and notified to the EBA; RTS setting technical requirements on the development, operation, and maintenance of the electronic central register; and on access to the information contained therein, as well as the Guidelines on fraud reporting under Article 96(6) of Directive (EU) 2015/2366 (PSD2), the Guidelines on the security measures for operational and security risks of payment services under Directive (EU) 2015/2366 (PSD2), and the Guidelines on major incident reporting under Directive (EU) 2015/2366 (PSD2).

Further, to ensure timely implementation of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data, and on the free movement of such data and repealing Directive 95/46 / EC (GDPR) which was published already in May 2016 and was applicable from May 2018, the Bank ran several implementation activities to ensure that its business and personal data protection system in place are aligned with GDPR requirements. The GDPR upgraded the data protection area in the EU to follow the intense development of information and communication technologies, the extent, intensity, and transfers of personal data (e.g. the development and expansion of the use of cloud computing, social networking, and smart phones) which all require adaptation and modernisation of the EU legislative framework. The GDPR presents an important milestone in ensuring adequate protection of fundamental rights of individuals regarding the protection of their personal data, addressing the development of the digital economy, and strengthening of the fight against international crime and terrorism. The GDPR regulates the rights of natural persons whose personal data are processed. It also establishes the obligation of persons responsible for data processing regarding the provision of transparent and easily accessible information to individuals about the processing of their data. The GDPR also specifies the general obligations of the operators and persons who process personal data on behalf of processors. These obligations include the obligation to implement appropriate security measures and the obligation to notify personal data breaches. Inter alia, the GDPR also gives greater emphasis to (preliminary) analysis of the effects on the protection of personal data in the event of incidents, such as loss of personal data, and establishes the obligation of reporting to the supervisory authority and, in some cases, all affected individuals. The national legislation regulating further rules set under the GDPR (i.e. The Slovenian Personal Data Protection Act; ZVOP-2) is expected to be adopted in the first half of 2019.

The EC adopted IFRS 9 through Commission Regulation (EU) 2016/2067 in July 2016. In accordance with that Regulation, credit institutions that use IFRS to prepare their financial statements are required to apply IFRS 9 as at the starting date of their first financial year starting on or after 1 January 2018.

In June 2018, the new Building Act was enacted and revises the scope of construction of buildings, thus replacing the existing Building Construction Act. Essential novelties for the Bank included, inter alia, Article 93, which specifies cases when it is not allowed to conclude a credit agreement due to illegal construction.

In the area of Financial Markets, during 2018 several organisational units in the Bank were involved in the implementation of the MiFID II and MIFIR rules. MiFID II entered into force on July 2014 and was amended by Directive (EU) 2016/1034 of the European Parliament and of the Council of 23 June 2016; the majority of the provisions applied from January 2018. ESMA and the EC published the final regulatory and implementing technical standards and guidelines regarding the implementation of various provisions in 2016. The national legislation transposing MiFID II was adopted in November 2018 and will be effective for the Bank from June 2019. MiFID II introduced a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase the regulation of commodities business, and introduce new rules for third-country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure, conduct rules (including enhanced suitability requirements), and introduce new investor protection measures, including product governance requirements.

Regarding Information Security, the Act on information security entered into force in May 2018 and regulates measures to achieve a high level of network and information security, which, inter alia, provides essential services for the preservation of key social and economic activities. It also provides minimum security requirements and incident notification requirements. The law transposes the NIS Directive into Slovenian legislation. In 2018 the Critical Infrastructure Act also came into force, which defines the financial sector as a carrier of critical infrastructure. The holders that will be appointed by the government within six months after the date of the entry into force of the law will need to develop appropriate measures and risk assessments in case of malfunction or failure of a critical infrastructure.

On 19 July 2018, the Slovenian National Assembly passed the Act for Value Protection of the Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana; ZVKNNLB), which entered into force on 14 August 2018. In accordance with the ZVKNNLB, the Succession Fund of the RoS (the Fund) shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the Transferred Deposits (that is the principle amount, accrued interest, court expenses, attorney's expenses, and other expenses of the plaintiff and expenses related to enforcement with the accrued interest). In accordance with the ZVKNNLB and pursuant to the agreement between NLB and the Fund, as envisaged by the ZVKNNLB, NLB has to contest the claims made against it in court proceedings in relation to transferred foreign currency deposits, and use against court decisions that are disadvantageous for NLB all reasonable legal remedies and to continue to actively challenge the judicial decisions of the courts of the Republic of Croatia in relation to transferred foreign currency deposits on the basis of which enforcement took place, leading, on the basis of ZVKNNLB, to the compensation of the sums recovered from NLB by enforcement.

From 14 November 2018, the Bank's financial instruments (shares and GDRs representing the Bank's shares) are listed on the London Stock Exchange and Ljubljana Stock Exchange. As a company with GDRs representing Shares listed on the London Stock Exchange, the Bank is subject to the relevant provisions of the Listing Rules (the LRs), the Disclosure Guidance and Transparency Rules (the DTRs), and the Prospectus Rules issued by the FCA, the Admission and Disclosure Standards of the London Stock Exchange, and Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (MAR) on an ongoing basis and regulations adopted on the basis of MAR. As a company with shares listed on the Ljubljana Stock Exchange, the Bank is also subject to the relevant provisions of the Ljubljana Stock Exchange Rules, Instructions for Stock Exchange Market Issuers, Guidelines on the disclosure for listed companies, the Slovenian Corporate Governance Code, and the Takeover Act on an ongoing basis.

In December 2018, the European Parliament and the Council of the EU reached a political agreement on the banking package amending CRD, CRR, and BRRD. The agreed amendments will include among other measures to strengthen the resilience and the resolvability of EU banks and supporting banking lending to the EU economy, introducing new regulatory requirements, prudential, and other requirements for the Bank.

On 10 August 2018, the EC adopted Decision (EU) 2018/1840 of 10 August 2018 on State aid, which amended the restructuring commitments of the Bank. The new commitment package prolonged the existing commitments and added some new ones. The New Commitments established that the old Commitments ceased to apply on 31 December 2017. Different time limits were set for the fulfilment of different obligations under the New Commitments, and the last possible deadline for the fulfilment of, or compliance with a particular obligation expires on 31 December 2019 (except if the shareholding of the RoS in NLB is not reduced to 25 per cent plus one share by that date, in which case the last such deadline expires when the shareholding of the RoS in NLB is reduced to 25 per cent plus one share).

Further, in June 2018, Directive (EU) 2018/843 was published, which amends Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and Directives 2009/138/EC and 2013/36/EU. This Directive (otherwise known as the 5th Anti-Money Laundering Directive) aims not only to detect and investigate money laundering, but also to prevent it from occurring. The Directive needs to be transposed into the national law by January 10, 2020. The key changes to the Directive (EU) 2015/849 involve broadening access to information on beneficial ownership and improving transparency in the ownership of companies and trusts, addressing risks linked to prepaid cards and virtual currencies, cooperation between financial intelligence units, and improved checks on transactions involving high-risk third countries, as well as improved identification of customers and verification of a customer's identity.

In November 2018, the ECB adopted the new Guide to the ILAAP and the Guide to ICAAP. The purpose of the ECB Guide to the ILAAP is to provide transparency by making public the ECB's understanding of the liquidity risk requirements following from Article 86 CRD IV. The purpose of this ECB Guide to the ICAAP is also to provide transparency by making public the ECB's understanding of the ICAAP requirements following from Article 73 CRD IV. Both Guides are aimed at assisting institutions in strengthening their ILAAPs and ICAAPs, and at encouraging the use of best practices by explaining in greater detail the ECB's expectations of the ILAAP and ICAAP, leading to more consistent and effective supervision.

In 2016, the ECB adopted the Regulation (EU) 2016/867 on the collection of granular credit and credit risk data (ECB/2016/13) – Anacredit, which sets out the obligation to report on all credit instruments and debtors in excess of the threshold of EUR 25,000. The reporting will be done through the national central banks (BoS) monthly and quarterly, and started in 2018.

In November 2018, the ECB adopted Regulation (EU) 2018/1845 on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 in relation to the threshold for assessing the materiality of credit obligations past due (ECB/2018/26). This Regulation applies exclusively with regard to credit institutions classified as significant, and sets a threshold which comprises two components: a limit in terms of the sum of all amounts past due owed by the obligor to the credit institution, and a limit in terms of the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor for the credit institution. Credit institutions shall apply the threshold for the assessment of the materiality of a credit obligation past due set by this Regulation not later than 31 December 2020.

In December 2018, the BoS adopted a decision amending the decision on the regulation of internal governance, the governing body and the process of assessing the appropriate internal capital for banks and savings banks that regulated, among other things, the ISM function. The new ISM function monitors and controls information security procedures with the aim of preventing unauthorised access to information in the storage, processing, or transfer of information and their changes, including the management of the risks involved, and the preparation of risk analysis for the purpose of the ICAAP process.

Chapter 8

Retail Banking in Slovenia

Retail banking remains the solid anchor of the Bank, proven by the leading market position on the Slovenian market in retail net loans and deposits. The widespread branch network is supported by upgraded client digital experience and satisfaction. New products and services are being constantly developed to prepare the Bank for future challenges. The Bank is committed to enhancing customer relationships. With routine and standardised services being simplified, the Bank is available to the customer as a digital experience 24/7. Personal interactions in branches are focused on more complex transactions and advisory services.

In Slovenia, the Retail banking achieved profit before tax in the amount of EUR 40.9 million, or 2% lower YoY. The result is based on higher net operating income (4%), higher costs (6%), and additional impairments and provisions (26%).

Net interest income was still under pressure given the continued low interest environment, nevertheless it recorded a 9% growth due to the growth of the retail loan portfolio and slow growth in interest rates on new loans.

Net non-interest income was burdened by the negative effect from the sale of 28.13% minority stake in Skupna pokojninska družba (EUR -0.5 million), and due to higher contribution of regulatory costs (DGS, SRF). Nevertheless, net fees and commissions income increased by 4% YoY due to revenue growth in the asset management business, and a new package offer for individuals.

Loans to retail clients in Slovenia increased by EUR 121.0 million, or 6%, and deposits by EUR 277.3 million, or 5% YoY.

Market leader in retail banking in Slovenia

The Bank maintained its leading position with a market share in retail lending of 23.2% (2017: 23.4%) and 30.3% (2017: 30.7%) in deposit-taking. The market share of housing loans is 22.2% (2017: 22.3%). Market share in consumer lending is 25.2% (2017: 25.1%).

The Bank's main sales channel remains its branch network of 94 branches, the largest network in Slovenia. In the process of rationalisation and cost optimisation, 14 branch offices were closed in 2018 as a result of moving from traditional to digital sales channels. The Bank also operates the largest ATM network (551 ATMs representing 34.9% market share in Slovenia).

Clients

738,835
clients in total

651,675
active clients

473,912
payroll clients*

12,085
new clients joined the Bank in 2018

*payroll or/and pension

Digital services

39.4%
digital users

179,289
mobile bank users

92%
digital payments

60.7%
of contactless payments

Table 13: Performance of the Retail banking segment in Slovenia

in EUR million consolidated

	2018	2017	Change YoY	
Net interest income	79.3	72.8	6.6	9%
Net non-interest income	67.1	67.8	-0.7	-1%
Total net operating income	**146.4**	**140.6**	**5.9**	**4%**
Total costs	-107.3	-100.8	-6.5	-6%
Result before impairments and provisions	**39.1**	**39.8**	**-0.7**	**-2%**
o/w non-recurring items	-0.5	-	-0.5	-
Impairments and provisions	-3.7	-2.9	-0.8	-26%
Net gains from investments in subsidiaries, associates, and JVs'	5.4	4.8	0.7	14%
Result before tax	**40.9**	**41.7**	**-0.8**	**-2%**
	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.	

Digital sales channels are gaining prominence, and the Bank is a market leader in providing customers opportunities to do business. While the electronic bank NLB Klik is an already established platform for the Bank's customers, the mobile bank Klikin is getting increasingly popular, with well over a quarter of the Bank's customers already using the app.

Customers can also reach the Bank through the NLB Contact Centre, the largest and the only 24/7 bank contact center in Slovenia which is able to advise customers on banking products, and to conclude certain banking transactions. The NLB Contact Centre is accessible by phone, chat, and video call via mobile and electronic banks, or other digital channels.

Highlights:

- **The mobile wallet NLB Pay, an advanced method of payment with cards with mobile phones, was launched.**
- **A package offer for individuals simplifying the use of most commonly used banking services was offered.**
- **Klikin was ranked first among mobile banks in Slovenia, while it continues to grow in the number of users and expanding its functionalities.**
- **The portal "Ustvarjam dom" (Creating home) was significantly upgraded.**
- **Maintaining leading position in private banking.**
- **NLB Skladi, is the largest mutual funds company on the Slovenian market with the market share over 32%.**
- **NLB Vita is succesfully increasing coverage of Banks' customers with its insurance products, whereby the Bank distributed more than 70% of all life insurances sold through the retail banking channel.**

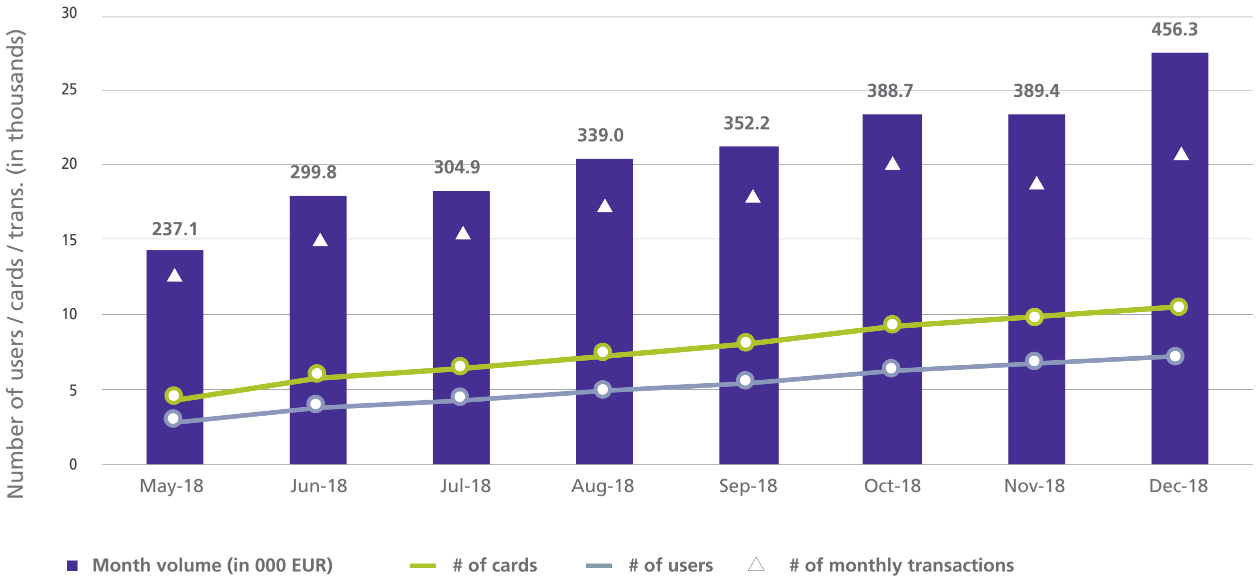


Figure 35: NLB Pay in numbers

#1 bank in cards and payment solutions in Slovenia

In the beginning of the year, the Bank launched mobile wallet NLB Pay, which enables clients to pay with the NLB MasterCard and Maestro cards with their mobile phones contactless, simple, fast, and safe payments on contactless POS (in Slovenia and abroad), and also enables installment payments. In 2018, 7,160 users downloaded the app, and they carried out over 140 thousand transactions in a total volume of almost EUR 3 million. NLB Pay is gradually being introduced in other Group banks.

The Bank's card market share represents 28.3% of the Slovenian market. Individuals' debit and credit cards volumes of payment transactions represented a total of EUR 2,078 million (2017: EUR 1,892 million), and cash withdrawals in the total of EUR 2,531 million (2017: EUR 2,483 million).

The Bank was the first on the Slovenian market to offer contactless ATMs to clients (254 of ATMs). With the implementation of contactless functionality, the level of safety increased.

Figure 36: Assets under management and the number of private banking clients

#1 in private banking with best-in class-advisory and asset management services

Private banking has the leading position among private banking providers in Slovenia, with an increasing number of clients (5.4% YoY) and assets under management. In 2018, NLB's private banking clients were especially satisfied with our attitude towards clients, and mostly satisfied with products/services and user experience. All this resulted in above average loyalty to the bank, according to the 2018 GfK Client Satisfaction Survey.

Banking experience of the clients is important

The Bank provides clients the right solutions at the right time and place. One such solution is providing packages for individuals (Basic Package, Young Package, Active Package, and Premium Package), offered to clients early in the year, including the most commonly used and needed banking products, and greatly simplifying the clients' daily banking services. Various options and procedures enable clients to change their 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, a brand new service called "NLB Lifestyle" was introduced offering Mastercard Concierge and Mastercard LoungeKey services.

Enhancement of the banking experience was introduced by offering a complete housing solution complementing financing with consultancy in the pre-sales stage and support in the after-sale stage of the housing loan. The portal "Ustvarjam dom" (Creating home) was upgraded to give clients access to special offers for the purchase of furnishings via the Bank's partners. In order to meet the market demand, the financing of all types of turn-key houses was introduced. To further improve user experience, the possibility of using a letter of credit account to draw the loan was offered to the borrower.

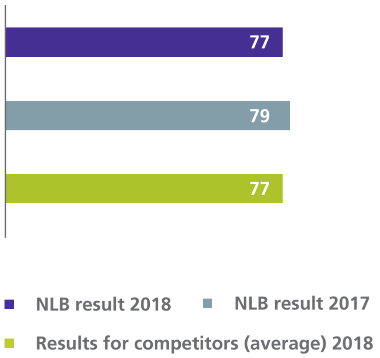


Figure 37: Overall satisfaction index – retail customers in Slovenia

Through the NLB Welcome service a client of any of the banking subsidiary of the Group can use the banking services of any other banking subsidiary. Such a service enables an increase of overdraft on accounts and credit cards, and money transfers. There are no fees for ATM cash withdrawals.

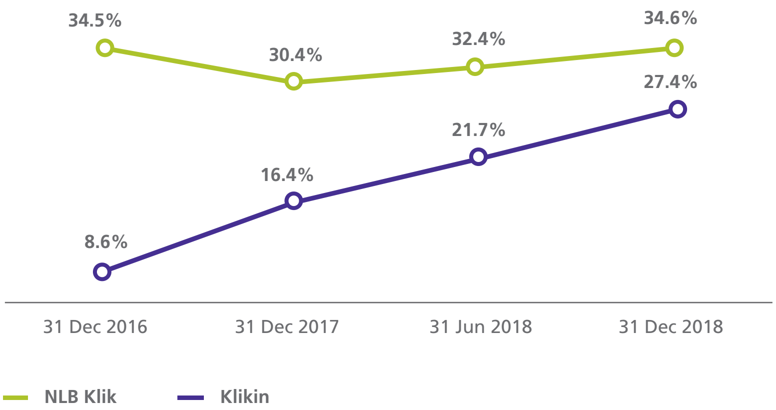


Figure 38: Online and mobile banking penetration

High quality client experience is provided by the experienced and well-trained personal advisors. The expertise and level of service is confirmed by the customer satisfaction index (2018 GfK Client Satisfaction Survey), which is when compared to competition, above average in satisfaction of attitude towards clients and user experience, including the digital use of services.

Moving to digital

The use of the mobile bank Klikin continues to grow; the total number of users increased to 179,289 (76,854 of 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 into NLB Packages details and an option to initiate insurance take-out for selected NLB Vita products.

The number of "Express Loan" concluded via Klikin continues to grow in comparison to "Express Loan" concluded in NLB branch offices.

According to the analysis of an independent market evaluation in 2018 (mBančništvo v Sloveniji 2018, performed by E-laborat in 2018), the Bank remained the most digitally developed bank in Slovenia with a focus on user-friendly business for the fourth consecutive year, with the online bank NLB Klik and the mobile bank Klikin ranking first among comparative banks in Slovenia.

Growing ancillary businesses complementing core banking products

NLB Skladi, the largest asset and mutual funds management company in Slovenia, increased its market share to 32.11% (2017: 29.93%) and was also ranked first in the amount of net-inflows (EUR 54.8 million) in an environment of other asset management companies experiencing net outflows. Total assets under management were EUR 1,215 million (2017: EUR 1,202 million) of which EUR 792.8 million consisted of mutual funds (2017: EUR 795.3 million) and EUR 422.5 million in the discretionary portfolio (2017: EUR 407.0 million). The company launched two new mutual funds: NLB Funds – Equity Financials, and NLB Funds – Equity Socially Responsible – Global Advanced Markets.

NLB Vita is ranked third among classic life insurance companies in Slovenia with a increased market share, excluding pension companies, of 14.6% (2017: 13.5%). The company 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 (2017: EUR 67.6 million), with an estimated balance sheet of EUR 459 million (2017: EUR 453.0 million). NLB Vita successfully improved the contribution of regular premiums paid to the 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 the policyholder.

In cooperation with the insurance company GENERALI Zavarovalnica d.d., the Bank provides non-life insurance products to the Bank's clients, including car and home insurance. 5.1% more polices were acquired YoY. The gross written premium amounted to EUR 3.38 million (2017: EUR 3.01 million), representing a 12.3% increase YoY.

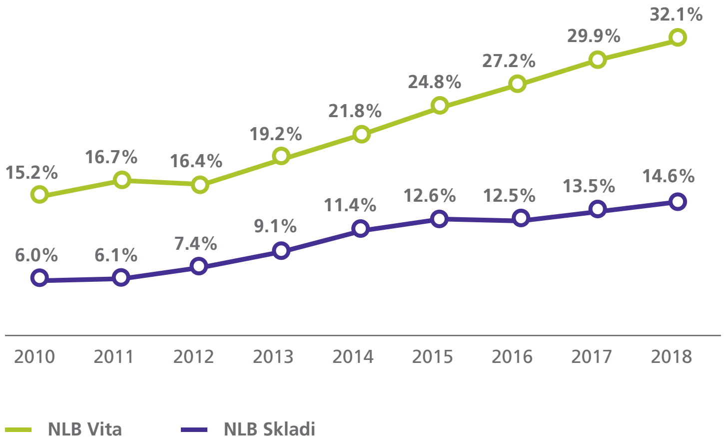


Figure 39: NLB Skladi and NLB Vita (traditional life products) market share evolution

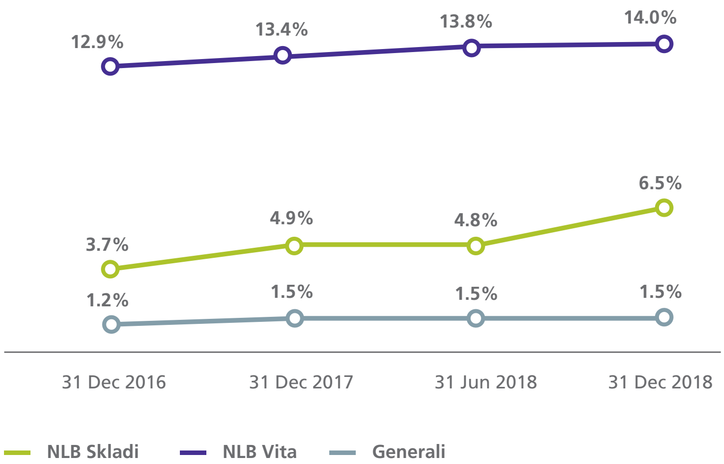


Figure 40: Customers' penetration of ancillary business (in %)

94
branch offices

28.3%
market share of cards

46.1%
contactless ATMs

Chapter 9

Corporate and Investment Banking in Slovenia

Corporate Banking

The Bank's strategic focus remained the development of relevant solutions through a genuine understanding of the clients' needs. With this developing partnership relationship, the Bank is a reliable partner to all corporate segments. The Bank offers a full spectrum of financial services to its clients, as well as capital markets advisory services, and continues to provide support by using tranditional and e- and m-banking solutions.

The Corporate banking segment in Slovenia realised a profit before tax in the amount of EUR 60.4 million, or 14% higher YoY, mostly based on the higher release of impairments and provisions (19%), and higher net income from financial transactions due to the effects of the valuation of loans at fair value in Restructuring and Workout. Nevertheless, the result was still affected by the low interest environment and the generally very high liquidity in the market.

The cost of risk was negative (i.e. credit impairments and provisions have been released on a net-basis), and was the result of continued success in Restructuring and Workout, as well as positive trends in the economic environment.

Loans in key, mid, and small corporate segments in Slovenia decreased in the amount of EUR 170.0 million (-8% YoY). A decrease in gross loans is due to the size of matured loans in key and mid enterprises (-10% and -7% YoY, respectively) and prepayment of some larger exposures (a higher decrease in syndicated loans), while small enterprises continued to grow (9% YoY). Corporate deposits increased by EUR 39.9 million (4% YoY).

Market leader with a strong focus on customers' needs

The Bank is the leading bank servicing corporate clients in Slovenia, with by far the largest client base and a market share of 18.2% in corporate loans (2017: 20.8%) and guarantees and letters of credit 24.5% (in 2017: 25.6%), and maintained its stronghold in all client segments. The Bank is increasingly focused on the mid-corporate and small enterprises segment, given low yields in large corporate segment. One of the Bank's key objectives is to personally engage with its clients so that the sales staff may become even better acquainted with clients' business models, crucial opportunities and risks, and thereby offer a professional and appropriate range of services.

Corporate clients

44,153
clients in total

36,872
active clients

889
new clients joined the Bank

Digital services

98.1%
digital users

17,627
mobile bank users

36.4%
market coverage with POS terminals

Table 14: Performance of the Corporate banking segment in Slovenia

in EUR million consolidated

	2018	2017	Change YoY	
Net interest income	42.5	42.9	-0.4	-1%
Net non-interest income	34.1	31.0	3.1	10%
Total net operating income	**76.7**	**73.9**	**2.7**	**4%**
Total costs	-43.0	-43.6	0.6	1%
Result before impairments and provisions	**33.7**	**30.3**	**3.4**	**11%**
Impairments and provisions	26.6	22.5	4.2	19%
Result before tax	**60.4**	**52.8**	**7.5**	**14%**

	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 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 the on-site advisory on the Bank's or company's permises, while less complex transactions can be handled with the use of e- and m-banking apps, depending on the information or product in which the client has interest.

The Bank provides a wide range of trade finance products where special attention is given to letter of guarantees by which the Bank supports major infrastructure projects in Slovenia. For exporters, representing an

Highlights:

- **Mobile wallet NLB Pay was 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.**
- **A new package offer for companies was introduced.**
- **The Bank participated in the project "Štartaj Slovenija" (Start it up Slovenia).**
- **NLB Business Account or Business Package can now be opened online.**

24.5%
a market share in guarantees and letters of credit

36.4%
market share in merchant acquiring

important part of the Slovenian economy, trade finance product range and tailor-made solutions are comprehensive from traditional trade finance products, such as letter of credit and collection to Bank Payment Obligation and other modern structures which provide safe financing throughout the supply chains. The improved rating of the Bank and large correspondent bank network helped to further evolve the part of the business internationally by offering all types of guarantees to exporters and importers, which all reflect in the significant market share.

A wide range of product supported by flexibility and professional support

To simplify and ease every day 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, which combines 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 first steps in the entrepreneurial world are the toughest. Therefore, the Bank again participated in the project "Štartaj Slovenija" (Start it up Slovenia). For all new entrepreneurs and those who are still thinking about it, the content was included on the Bank's web page focusing on various aspects of entrepreneurship.

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 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 growth and investment in infrastructure projects.

After partial lifting of the EC restrictions, the Bank, after several years, was able to explore opportunities of international financing, primarly in the SEE region, and is expected that business opportunities on international level will be further explored in the years ahead. The first such business was concluded in cooperation with of the Bank and NLB Banka, Beograd at the end of 2018 in Serbia with the participation in a syndicated loan.

Digitalisation of product offering

The further digitalisation push is also shown in Klikpro advances, 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.

The Bank's mobile wallet NLB Pay app was launched, enabling clients to make with the NLB Business MasterCard and NLB Business Maestro cards contactless, simple, fast, and safe payments on the contactless POS (in Slovenia and abroad). NLB Pay also enables installment payments.

Payments, cards and merchant acquiring drive resilient corporate fee income

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 legal entities operating within the Group.

The Bank maintains its position in debit and credit business cards, and increased its business volume growing 12.9% YoY in a challenging business environment, including new technologies (e.g. mobile payments) implemented by Fintechs. Key implemented initiatives included: promoting the sale of unregulated business (commercial) cards, pay-later payment cards with instalment functionality, and the introduction of mobile payment solutions NLB Pay.

The Bank is a leader in merchant-acquiring by accepting Visa, MasterCard, Maestro, and Karanta cards, and being the first Slovenian bank with a 100% contactless POS network.

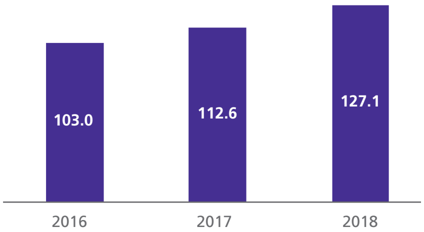


Figure 41: Transaction volume of NLB business cards (in EUR million)

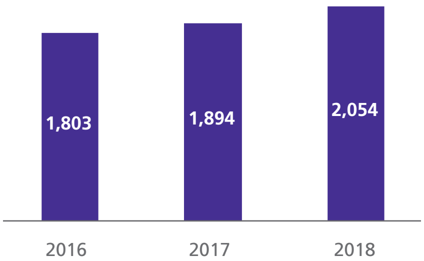


Figure 42: Transaction volume at NLB POS (in EUR million)

Investment Banking and Securities Service

The Bank remained a leading provider of Investment Banking and Securities Services in Slovenia, with full-scale coverage of corporate and institutional clients with offerings in debt and equity capital markets, M&A, advisory, and treasury solutions. Offering a wide range of products and regional know-how, the Bank will pursue its goals dedicated to and focused on the region where the Group is present.

The Investment banking and Custody result before tax decreased by EUR 0.6 million YoY. Fewer concluded interest rate hedge deals and consequently revenue decrease in treasury solutions were compensated by revenue growth in corporate finances, revenue growth of brokerage fees, and revenue growth of custody fees.

The total asset value under custody was EUR 15.9 billion, a 8.23% increase YoY.

Debt capital markets and M&A advisory

The Bank provided its customers the whole range of corporate finance solutions:

- Assisted companies to broaden their funding base and arranged the issuance of both long and short-term instruments in the total of EUR 62 million on debt capital markets.
- Lead-managed the syndication market transactions in Slovenia as a mandated lead arranger, with EUR 453 million of the total amount of syndicated transactions.
- Was active in M&A and other financial advisory engagements. As the sole financial advisor it successfully organised the sales process of one Slovenian company and five takeover bids.

In January the Bank also acted as one of the joint lead managers in the EUR 1.5 billion 10-year benchmark bond issuance for the RoS.

Brokerage and Treasury Solutions

The Bank has stabilised its position as a market leader in brokerage services to both retail and institutional clients, performed through its wide execution network on domestic and international markets. The total brokerage turnover amounted to EUR 954 million, representing 6.7% volume growth and 30% growth of net non-interest income YoY.

Highlights:

- **The Bank successfully managed and completed its first hedge coordination project.**
- **The Bank further strengthened its position as a domestic market leader in syndication transactions and issuance of long and short-term financial instruments.**
- **Expansion of the client base in Custody services with assets under management reaching EUR 15.9 billion.**

Standard treasury products to corporate and institutional clients are provided by the Bank. In addition to plain vanilla FX spot transactions, the Bank also trades with derivatives for hedging against currency and interest rate exposures. In 2018 the overall volume of these transactions reached EUR 1.3 billion (2017: EUR 2.0 billion), which can be attributed to the cyclical nature of transactions and specific market conditions. Due to the volatile and unpredictable business environment, special attention was dedicated to corporate clients engaging in interest rate and FX hedging activities. In addition, the Bank, together with banking syndicate, successfully managed and completed its first hedge coordination project.

Custody

The Bank remains one of the top Slovenian players in custodian services for Slovenian and international customers, strengthening its position by expansion of its client base in both areas of business, custody services as ancillary investment services and depositary services for funds.

Assets under custody grew by approximately EUR 1.2 billion to a total of EUR 15.9 billion. The Bank acts as a gateway into the region using own network and partner institutions for seamless service to its customers. The Bank's focus as a client-oriented service provider remains strong.

Table 15: Performance of the Investment banking and Custody services*

in EUR million consolidated

	2018	2017	Change YoY	
Total net operating income	**8.5**	**8.8**	**-0.3**	**-3%**
Total costs	-6.1	-5.8	-0.3	-5%
Result before tax	**2.4**	**3.0**	**-0.6**	**-20%**

* The result of the Investment banking in Slovenia is included under the segment result of Financial markets in Slovenia in the Audited Financial Statements of NLB and NLB Group part of the Annual Report. 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 methodology.

Chapter 10

Strategic Foreign Markets

Highlights:

- 1.14 million active clients in six markets.
- A strong network of 233 branches.
- The contribution to the Group result before tax of the strategic foreign members was 39% (2017: 43%).
- EUR 39.3 million (2017: EUR 50.8 million) of dividend pay-outs.

The core part of the Group in foreign markets consists of six banks and two SPVs. The banks are distinguished by a strong reputation and stable market position. Best practice sharing within the Group members led to continuous and profitable growth in regular business. Market shares of subsidiary banks exceed 10% in four out of six markets. Core members of the Group in foreign markets, key profit generation units, posted a profit before tax of EUR 99.7 million (2017: EUR 102.0 million), a slight decrease of 2% compared to 2017. The contribution to the Group results before tax of the strategic foreign members was 39% (2017: 43%). All six banks produced the highest profit before impairments and provisions ever (EUR 114.3 million). This is the result of strong loan production, especially in the retail segment, improved cost efficiency, the favourable cost of risk developments and commitments to client-centric digital solutions, talent management, and active engagement in social responsibility initiatives.

The year was successful for all core members of the Group in foreign markets – all of them posted a profit before tax in the total amount of EUR 99.7 million (2017: EUR 102.0 million), including the result of minority shareholders. The contribution to the Group results before tax of the strategic foreign members was 39%[20] (2017: 43%). 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 fees and commission income (4% YoY). 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). Compared to 2017, the operating result improved, due mainly to higher operating income and lower impairments and provisions.

All subsidiary banks continued strong loan production with an increase in gross loans of 10% with very low cost of risk in all entities. Deposits also recorded a strong growth of EUR 359.8 million or 12% YoY.

Fee-related business also gained importance and net non-interest income increased by 36% YoY.

Focus on operational efficiency and rationalisation processes lead to a CIR of 47%, a YoY decrease of 4.0 p.p.

The results created a solid and sound basis to focus on new business opportunities, a continuation on client-focused digitalisation activities, and investments in the employee development. The regulatory framework has changed in most of the countries to gradually approach EU banking rules.

Subsidiary banks remain committed to organic growth strategy, and boost business operations and service excellence. Continuous leveraging on synergies are aimed at the areas of client centricity, the introduction of modern technologies and digitalisation, increased operational excellence, and talent management. With the expiring of commitments towards the EC which restrain Group members in certain areas of business, subsidiary banks will be in a position to take up new opportunities in the regional banking sector.

20. On NLB Banka, Skopje, the positive effect from non-recurring income from the sale of the subsidiary NLB Nov penziski fond, Skopje in the amount of EUR 8.5 million is excluded.

Table 16: Results of the Strategic foreign markets segment

in EUR million consolidated

	2018	2017	Change YoY	
Net interest income	150.1	144.6	5.5	4%
Net non-interest income	63.9	47.1	16.8	36%
Total net operating income	**214.0**	**191.7**	**22.3**	**12%**
Total costs	-100.0	-97.2	-2.8	-3%
Result before impairments and provisions	**114.0**	**94.5**	**19.6**	**21%**
o/w non-recurring items	12.2	-	-	-
Impairments and provisions	-14.3	7.6	-21.8	-
Result before tax	**99.7**	**102.0**	**-2.3**	**-2%**
o/w Result of minority shareholders	7.9	8.2	-0.3	-4%

	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	46.7%	50.7%	-4.0 p.p.	
Interest margin	3.85%	4.04%	-0.19 p.p.	

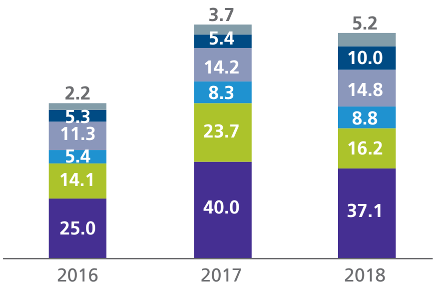


Figure 43: Profit after tax (in EUR million)

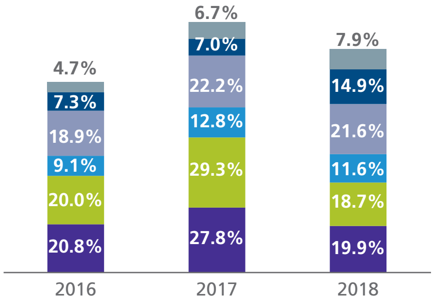


Figure 44: ROE a.t.

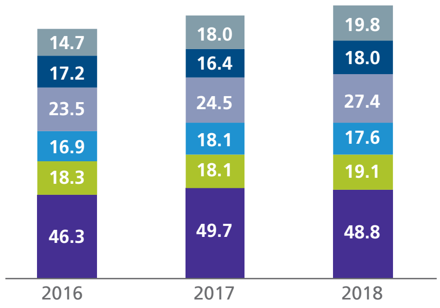


Figure 45: Net interest income (in EUR million)

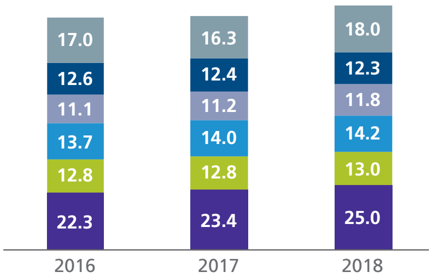


Figure 46: Operating cost (in EUR million)

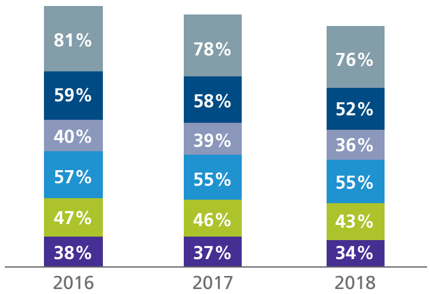


Figure 47: CIR

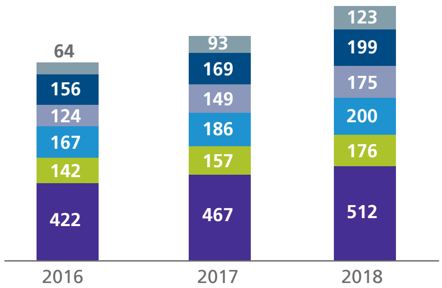
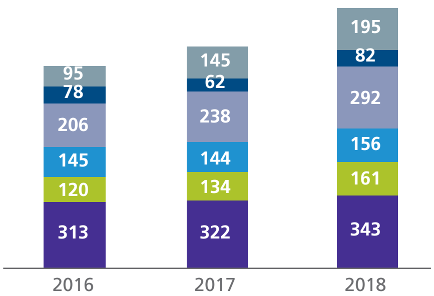


Figure 48: Net loans to individuals (in EUR million)



- NLB Banka, Beograd
- NLB Banka, Podgorica
- NLB Banka, Prishtina
- NLB Banka, Sarajevo
- NLB Banka, Banja Luka
- NLB Banka, Skopje

Figure 49: Net loans to corporate (in EUR million)

NLB Banka, Skopje

The Bank is the 3rd largest bank in Macedonia with a 16.3% market share in total assets, the 2nd largest bank with a 17.6% market share in gross loans to the non-banking sector, and the 3rd largest bank with a 17.4% market share in deposits on a highly concentrated market. The predominant strength of the bank is in the retail segment. The bank provides a full spectrum of financial services to retail and corporate clients, and is a market leader in the introduction of mass sale digital platforms used by third parties (credit intermediaries) and distribution of life insurance products. By developing and maintaining the NLB mKlik and NLB Proklik platforms, the Bank was also the leader in innovations in the local banking sector.

The year was a dynamic and challenging one for Macedonia. Nevertheless, the economy surged compared to the moderate growth in 2017, thanks to growing household consumption and government spending. The bank realised profit after tax in the amount of EUR 37.1 million (2017: EUR 40.0 million) and profit before impairments and provisions in the amount of EUR 47.7 million (2017: EUR 39.1 million), with capital gains from the sale of NLB Nov penziski fond, Skopje in the amount of EUR 8.5 million. ROE a.t. is still high (19.9%), CIR improved to 34.4%, and capital adequacy remained stable at 16.7% (2017: 14.4%). The result was driven by strong retail lending, card operations, payment services, the sale of insurance products, and additionally by the capital gain mentioned earlier. The total assets of the bank rose by 9.2%, with 7.8% growth in net loans to non-banking sector, and 7% growth in deposits from the non-banking sector. NPL ratio was further reduced to 5.1% (2017: 5.2%).

Retail, a predominant strength of the bank, recorded a growth in net loans (9.6%) and deposits (9.3%). The retail loan portfolio was dominated by consumer loans (56.7% of retail loan portfolio). The interest margin on consumer loans is still high, but under significant pressure coming from competition which offers loans with lower interest rates and lower requirements for collateral. A growth in net retail loans was recorded, mainly due to an increase of housing loans (15.7%), and the bank retained a market share of 21.1% in retail gross loans. The main focus was on intensifying credit activities directly or through loan intermediaries and mass-sale platforms, meeting customer preferences, supporting traditional housing loans, and offering non-banking services. Deposits from retail represent a major part of the deposit base.

The bank invested in technical support for digital services. The new service NLB Pay Mobile Wallet was launched offering easy-to-use and secure payments. ATM funcionalities were upgraded in order to use the ATMs as a distribution channel of preapproved sales leads (preapproved credit cards and preapproved limits for credit cards). In order to provide more benefits for personal banking clients and to improve the level of satisfaction, the NLB Club Program (loyalty programme) and new website for NLB Club were introduced. The bank has also expanded its presence with a new branch that is available to clients as a 24/7 self-service zone.

Corporate experienced growth in net loans (6.6%) and deposits (1%). The corporate loan portfolio is dominated by SMEs, which remain the main focus of the Bank. A growth of 6.6% in net corporate loans was recorded, and the bank had a market share of 14.3% in corporate gross loans. The bank has fostered a supportive business climate for SMEs and offered reliable service to corporates through constant improvement of its sales force knowledge.

The main opportunities the bank forsees are the growth of loans, deposits, an payment services, with a focus on high-yield retail market products and enreach the offer of non-banking products with a focus on bancassurance. On the corporate side the bank tends to extend the focus on an array of financial products including commercial banking, project financing, custodial services, guarantee operations, e-bank services, and develop joint offers and approaches in order to strengthen the market position in the region.

The bank received several awards for the Best Bank in Macedonia (from The Banker, Euromoney, and European Banking Awards), Best Social Responsible Practices for 2018 (from the Macedonian Ministry of Economy), the best financial/banking website in Macedonia (from the annual manifestation "Page of the year"), and the best commercial for NLB haPPy card (at the Golden Ladybug 2018 Awards). The bank has also been named the Best Bank in Macedonia by ROE and ROA by Finance Central Europe. Furthermore, according to the votes by the readers of the finance on-line magazine bankarstvo.mk, NLB Banka, Skopje has been voted as the best in the country in three categories: introducing innovative products and services, the largest number of branches and ATMs, and the brand's recognisability.

During the past year, the bank was actively engaged in different corporate and social responsibility activities coming to an impressive total of 85 activities, which further strengthened the relationship with the employees, clients, prospective clients, and the community.

Highlights:

- **16.3% market share by total assets.**
- **Continuously profitable.**
- **Innovative products and services, and diverse sales channels.**

Antonio Argir
President of the Management Board

Table 17: Key performance indicators of NLB Banka, Skopje*

in EUR thousands

Key performance indicators	2018	2017	Change YoY
Net interest income	48,781	49,665	-1.8%
Net non-interest income	23,972	12,846	86.6%
Total costs	-25,049	-23,381	-7.1%
Impairments and provisions	-6,796	5,481	-
Result before tax	40,908	44,611	-8.3%
Result after tax	37,068	40,004	-7.3%
Financial position statement indicators			
Total assets	1,350,054	1,235,914	9.2%
Loans and advances to customers (net)	858,592	796,678	7.8%
Deposits from customers	1,076,154	1,005,282	7.0%
Equity	199,808	156,609	27.6%
Key financial indicators			
Capital adequacy ratio	16.7%	14.4%	2.3 p.p.
Interest margin**	4.0%	4.3%	-0.3 p.p.
Return on equity after tax (ROE a.t.)	19.9%	27.8%	-7.9 p.p.
Return on assets after tax (ROA a.t.)	3.0%	3.5%	-0.5 p.p.
Cost-to-income ratio (CIR)	34.4%	37.4%	-3.0 p.p.
Non-performing loans (NPL)	55,967	53,800	4.0%
Non-performing loans/total loans (NPL)	5.1%	5.2%	-0.1 p.p.
Market share in terms of total assets	16.3%	16.2%	0.1 p.p.
LTD (Net loans to customers/Deposits from customers)	79.8%	79.2%	0.5 p.p.

* Data on a stand-alone basis as included in the consolidated financial statements of the Group.
** Interest margin for 2017 is adjusted to the new methodology valid from 1 January 2018.

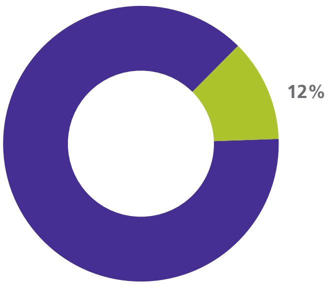
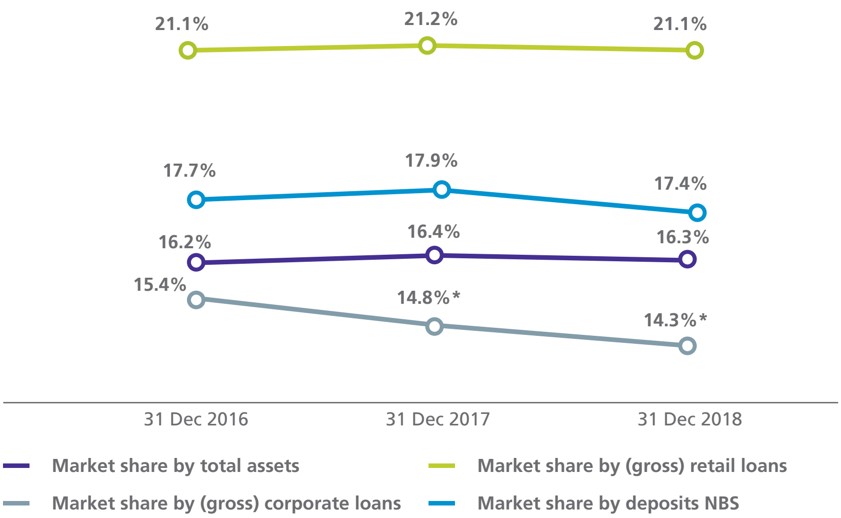


Figure 50: Contribution to NLB Group profit after tax – on consolidated basis

The contribution of NLB Banka, Skopje excludes realised capital gains from the sale of NLB Nov penziski fond, Skopje in the amount of EUR 8.5 million corresponding to the 49% ownership; nevertheless the consolidated profit from the sale of NLB Nov penziski fond, Skopje amounted to EUR 12.2 million.



* Refers to market share of non-financial legal entities.

Figure 51: 3-year market share evolution

NLB Banka, Banja Luka

The bank is the 3rd largest bank in the Republic of Srpska with a 18.3% market share in total assets as at of 31 December 2018 (preliminary data). It provides banking services to customers through a broad branch network of 57 branches and 74 ATMs. The bank is oriented in corporate and retail segments, and has a very strong deposit base. Further attention was put on the modernisation of sales channels and services providing improvements of electronic and mobile banking services also by introducing e-bills with selected utility companies in its mobile bank.

The growth in BiH slightly decreased, mostly due to weaker household consumption growth and weaker exports but remained at a solid pace thanks to declining unemployment and the buoyant tourist sector. The bank realised profit after tax in the amount of EUR 16.2 million (2017: EUR 23.7 million) and profit before impairments and provisions in the amount of EUR 17.0 million (2017: EUR 15.0 million), ROE a.t. of 18.7% (2017: 29.3%), improved CIR of 43.5%; (2017: 46.1%), and increased capital adequacy of 15.6% (2017: 15.3%). The main driver of the result was net interest income, while the bank recorded a very strong 13.5% YoY growth in net non-interest income deriving predominantly from payment and card transactions, as well as account maintenance fees. Net non-interest income represents 36% of total income, the highest among NLB banking subsidiaries. The total assets of the bank rose by 7.5%, with a 10% growth in net loans to the non-banking sector, and an 8% growth in deposits from the non-banking sector. The NPL ratio was further reduced to 3.2% (2017: 3.7%).

Retail banking had 12% growth in loans where the bank supplemented its traditionally good performance in housing loans, representing 50% of the retail loan portfolio, with strong growth in consumer lending. The market share in gross retail loans as at 31 December 2018 (preliminary data) was 16.1% (2017: 15.2%). The main focus remains cross-selling among corporate and retail, and upselling using upgraded CRM tools for customised services according to client needs. The bank was especially successful in cooperation with local real estate investors, who promoted the bank as a creditor. The bank is in the process of acquiring a licence for bancassurance to expand the bank's product range.

Corporate banking recorded a 20% growth in loans, overcoming the drop in loans to the state by 16%. The market share in gross corporate loans as at 31 December 2018 (preliminary data) was 15.4% (2017: 14.2%). The bank strengthened cooperation with NLB Banka, Sarajevo resulting in increased exposure and income generation from the joint financing of clients on the BiH market. Additionally, the bank joined forces with NLB Banka, Podgorica in the first cross-border financing at the Group level and provided credit support to a tourism project in Montenegro.

To further improve cooperation and achieve the synergies with NLB Banka, Sarajevo, both banks intensified the approach towards clients on a joint principle, introduced a joint welcome webpage, and refreshed webpages to enhance the NLB brand and image. Furthermore, both banks aligned their marketing activities and as a result, the bank recorded very good results from a housing loan campaign. An event "I feel Slovenia" took place in Sarajevo in May under the sponsorship of the Slovenian Ministry of foreign affairs and Slovenia's Embassy in Sarajevo in order to promote networking among Slovenian companies present in BiH and their business partners, with both banks being co-organisers of the event. The main opportunities the bank foresees are consumer lending, process excellence, and further development of digital channels.

The bank received the Golden BAM award for the highest ROE and ROA among banks in BiH for 2017 and remained an active member of social community supporting young athletes.

Highlights:

- **18.3% market share in total assets.**
- **14% growth in net non-interest income YoY.**
- **Improved synergies with NLB Banka Sarajevo in client servicing.**

Radovan Bajić
President of the
Management Board

Table 18: Key performance indicators of NLB Banka, Banja Luka*

in EUR thousands

Key performance indicators	2018	2017	Change YoY
Net interest income	19,057	18,146	5.0%
Net non-interest income	10,939	9,636	13.5%
Total costs	-13,046	-12,803	-1.9%
Impairments and provisions	1,387	10,579	-86.9%
Result before tax	18,337	25,558	-28.3%
Result after tax	16,184	23,694	-31.7%
Financial position statement indicators			
Total assets	720,509	669,949	7.5%
Loans and advances to customers (net)	384,806	349,102	10.2%
Deposits from customers	575,775	532,546	8.1%
Equity	87,218	84,440	3.3%
Key financial indicators			
Capital adequacy ratio	15.6%	15.3%	0.3 p.p.
Interest margin**	2.8%	2.8%	0.0 p.p.
Return on equity after tax (ROE a.t.)	18.7%	29.3%	-10.6 p.p.
Return on assets after tax (ROA a.t.)	2.3%	3.6%	-1.3 p.p.
Cost-to-income ratio (CIR)	43.5%	46.1%	-2.6 p.p.
Non-performing loans (NPL)	19,199	20,151	-4.7%
Non-performing loans/total loans (NPL)	3.2%	3.7%	-0.5 p.p.
Market share in terms of total assets***	18.3%	18.6%	-0.3 p.p.
LTD (Net loans to customers/Deposits from customers)	66.8%	65.6%	1.2 p.p.

* Data on a stand-alone basis as included in the consolidated financial statements of the Group.
** Interest margin for 2017 is adjusted to the new methodology valid from 1 January 2018.
*** Preliminary data.

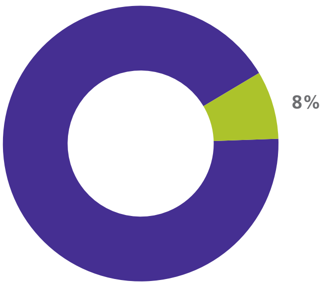


Figure 52: Contribution to NLB Group profit after tax – on consolidated basis

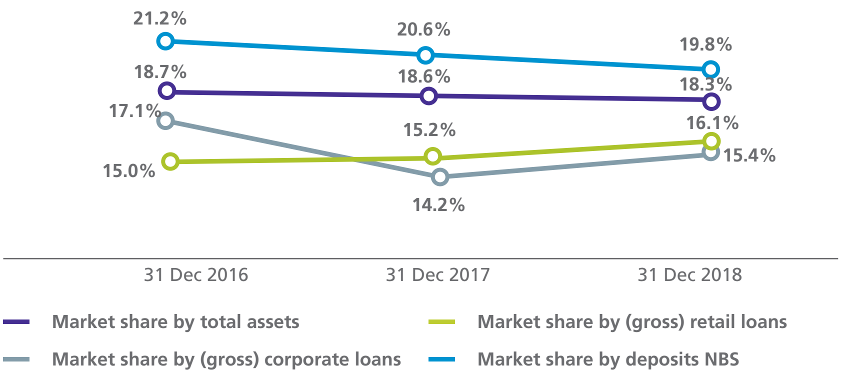


Figure 53: 3-year market share evolution

NLB Banka, Sarajevo

The bank is the 6th largest bank in the Federation of BiH with a 5.1% market share in total assets as at 30 September 2018. It provides a variety of banking services to customers through a broad branch network of 38 branches spread across the Federation. Modernisation of bank's branch network is underway with several branches already being renovated according to modern open-space standards. Improving customer experience was achieved with the introduction of new digital products and solutions.

The growth in BiH slightly decreased, mostly due to weaker household consumption growth and weaker exports, but remained at a solid pace thanks to declining unemployment and a buoyant tourist sector. The bank realised the highest ever profit after tax in the amount of EUR 8.8 million (2017: EUR 8.3 million), and profit before impairments and provisions in the amount of EUR 11.7 million (2017: EUR 11.5 million) in spite of the strong competition and declining interest rates on the market, with stable cost efficiency (CIR of 54.8%; 2017: 54.8%) and increased capital adequacy to 16.4% (2017: 15.2%). The bank recorded a strong 11% YoY growth in net non-interest income. Total assets of the bank rose by 11.5%, with an 8% growth in net loans to the non-banking sector and 10% growth in deposits from the non-banking sector. The NPL ratio was further reduced to 5.7% (2017: 6.9%).

Retail net loans grew 8% and held a market share of 6.1% in retail gross loans (2017: 6.1%). This was due predominantly to consumer lending. The bank introduced an online loan application on its website, and launched a new product for clients, a MasterCard charge card that provides purchasing in instalments via SMS message on all POS in the country and abroad. The bank acquired a licence for the sale of bankassurance products, opening new opportunities with clients and is in the final phase of launching NLB Pay, a Group mobile wallet solution.

Corporate net loans grew by 8% and market share in corporate gross loans decreased to 4.7% (2017: 5.0%) despite large refinancing pressures in this segment. The bank strengthened cooperation with NLB Banka, Banja Luka in the corporate segment resulting in increased exposure and income generation from the joint financing of clients on the BiH market.

Besides introducing the International Desk initiative on the Group level, the bank identified main growth opportunities on the segment of SME loans and housing loans, with additional potentials for income growth estimated due to introduction of new bankassurance products. Special focus will be dedicated to the use and development of digital channels (E-bank, MBank, web chat, etc.), while exploring further synergy potentials, in order to optimise business operations and to improve cost management on a country level.

The bank was elected as the second most desirable employer in the financial sector in BiH and the Bank's CEO Lidija Žigić was elected as the woman that most contributed to the development of the financial and banking sector in the Federation of BiH. The bank was actively engaged in more than 50 corporate and social responsibility initiatives, through active participation in various humanitarian projects, sponsorships, and donations such as sponsoring the second Economic forum in BiH, and several cultural and sports events. Donations were mainly given to support health improvement, as well as the education and promotion of young people.

Highlights:

- **Highest ever profit after tax of EUR 8.8 million.**
- **Modernisation of bank's branch network.**
- **Acquired licence for the sale of bankassurance products.**

Lidija Žigić
President of the
Management Board

Table 19: Key performance indicators of NLB Banka, Sarajevo*

in EUR thousands

Key performance indicators	2018	2017	Change YoY
Net interest income	17,586	18,059	-2.6%
Net non-interest income	8,271	7,453	11.0%
Total costs	-14,170	-13,973	-1.4%
Impairments and provisions	-1,965	-2,000	1.8%
Result before tax	9,722	9,539	1.9%
Result after tax	8,757	8,300	5.5%
Financial position statement indicators			
Total assets	592,166	531,016	11.5%
Loans and advances to customers (net)	359,499	332,557	8.1%
Deposits from customers	472,297	427,932	10.4%
Equity	80,174	69,086	16.0%
Key financial indicators			
Capital adequacy ratio	16.4%	15.2%	1.2 p.p.
Interest margin**	3.2%	3.5%	-0.3 p.p.
Return on equity after tax (ROE a.t.)	11.6%	12.8%	-1.3 p.p.
Return on assets after tax (ROA a.t.)	1.6%	1.6%	0.0 p.p.
Cost-to-income ratio (CIR)	54.8%	54.8%	0.0 p.p.
Non-performing loans (NPL)	30,805	34,014	-9.4%
Non-performing loans/total loans (NPL)	5.7%	6.9%	-1.2 p.p.
Market share in terms of total assets***	5.1%	5.2%	-0.1 p.p.
LTD (Net loans to customers/Deposits from customers)	76.1%	77.7%	-1.6 p.p.

* Data on a stand-alone basis as included in the consolidated financial statements of the Group.
** Interest margin for 2017 is adjusted to the new methodology valid from 1 January 2018.
*** Data for 2018 are per 30 September 2018.

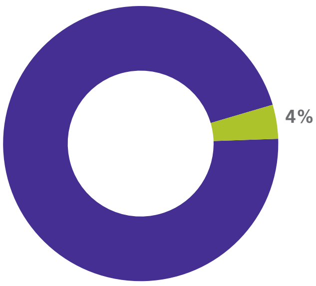


Figure 54: Contribution to NLB Group profit after tax – on consolidated basis

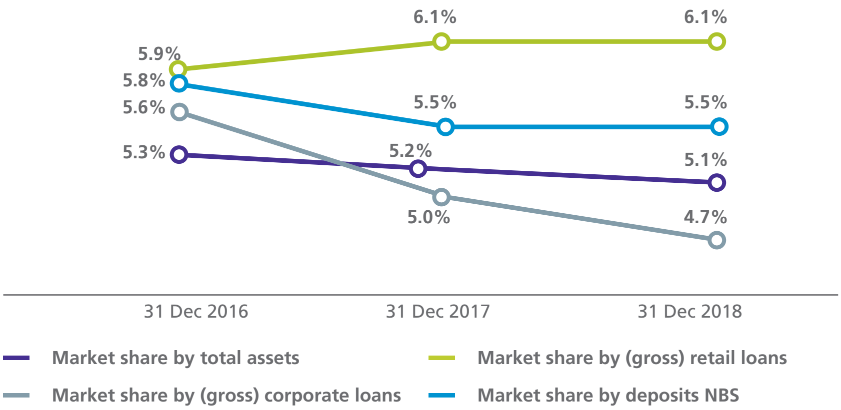


Figure 55: 3-year market share evolution

NLB Banka, Prishtina

The bank is the 3rd largest bank in Kosovo with 16.8% market share in total assets (2017: 15.7%) and one of the major players on the competitive market with growth potential on retail, as well as the corporate side. Emphasis was is put toward clients and digitalisation, with the bank encouraging customers to use modern digital channels; the number of e- and m-banking users increased by 56% YoY, while the number of total transactions was increased by 38% in the same period.

The growth in Kosovo slightly moderated, partially due to a downturn in exports, and partially due to a contraction in government consumption. In contrast, a surge in the household consumption contributed to solid economic growth. The bank performed very well and achieved profit after tax in the amount of EUR 14.8 million (2017: EUR 14.2 million), and profit before impairments and provisions in the amount of EUR 20.6 million (2017: EUR 17.8 million). Total income, net interest income, and net non-interest income were above 2017 levels, mostly due to an increase of loan portfolio, cards, and electronic banking operations. CIR decreased further to 36.4% (2017: 38.7%) due to increased income overweighting the increase in costs. Total assets grew by 14.4% propelled mainly by net loans to the non-banking sector increasing by 21%. The amount of deposits from non-banking sector increased by 16%. Relatively low NPL ratio further decreased to 2.4% (2017: 2.9%), mainly due to an increase in the loan portfolio. Capital adequacy reached 14.6% (2017: 15.9%).

Retail recorded high net loans growth of 17.3% (the market share in retail net loans was 17.9%) to reach EUR 175 million. Housing loans increased by 23% and reached 60% of all retail loans, while consumer loans increased 4%. The main drivers were tailor-made campaigns for specific target groups. High competitiveness in the market caused slight pressure on interest rates.

The corporate loan portfolio grew by 23% to reach EUR 292 million. Market share in corporate net loans increased to 17.6% (2017: 16.2%). The main factor of increase were investment loans with the increase of 32%. High competitiveness of the market caused slight pressure on the interest rates, as well.

The bank sees the main opportunities for the future growth in the areas of cross-selling, the large companies segment, development of agro segment, and upgrading clients' experience.

Awards are the consequence of excellence and the bank was recognised for being the most active issuing bank for guarantees in Kosovo (by EBRD), the best bank in Kosovo and "Top Employer of the year" (by Kosovo Chamber of Commerce). The bank was also very active in the corporate and social activites by supporting healthcare campaigns, donations to the hospital, and other humanitarian, sport, and environmental projects.

Highlights:

- **Continuously profitable performance, with substantial dividend pay-out capacity.**
- **Increased e- and m-banking users.**
- **Low CIR of 36.4%.**

Albert Lumezi
President of the Management Board

Table 20: Key performance indicators of NLB Banka, Prishtina*

in EUR thousands

Key performance indicators	2018	2017	Change YoY
Net interest income	27,372	24,471	11.9%
Net non-interest income	5,034	4,611	9.2%
Total costs	-11,801	-11,242	-5.0%
Impairments and provisions	-3,792	-2,176	-74.3%
Result before tax	16,813	15,664	7.3%
Result after tax	14,836	14,197	4.5%
Financial position statement indicators			
Total assets	668,127	584,086	14.4%
Loans and advances to customers (net)	466,854	386,804	20.7%
Deposits from customers	585,851	506,672	15.6%
Equity	71,786	66,705	7.6%
Key financial indicators			
Capital adequacy ratio	14.6%	15.9%	-1.3 p.p.
Interest margin**	4.4%	4.5%	-0.1 p.p.
Return on equity after tax (ROE a.t.)	21.6%	22.2%	-0.6 p.p.
Return on assets after tax (ROA a.t.)	2.4%	2.6%	-0.2 p.p.
Cost-to-income ratio (CIR)	36.4%	38.7%	-2.2 p.p.
Non-performing loans (NPL)	14,362	14,804	-3.0%
Non-performing loans/total loans (NPL)	2.4%	2.9%	-0.5 p.p.
Market share in terms of total assets	16.8%	15.7%	1.1 p.p.
LTD (Net loans to customers/Deposits from customers)	79.7%	76.3%	3.3 p.p.

* Data on a stand-alone basis as included in the consolidated financial statements of the Group.
** Interest margin for 2017 is adjusted to the new methodology valid from 1 January 2018.

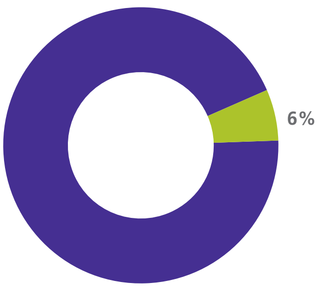


Figure 56: Contribution to NLB Group profit after tax – on consolidated basis

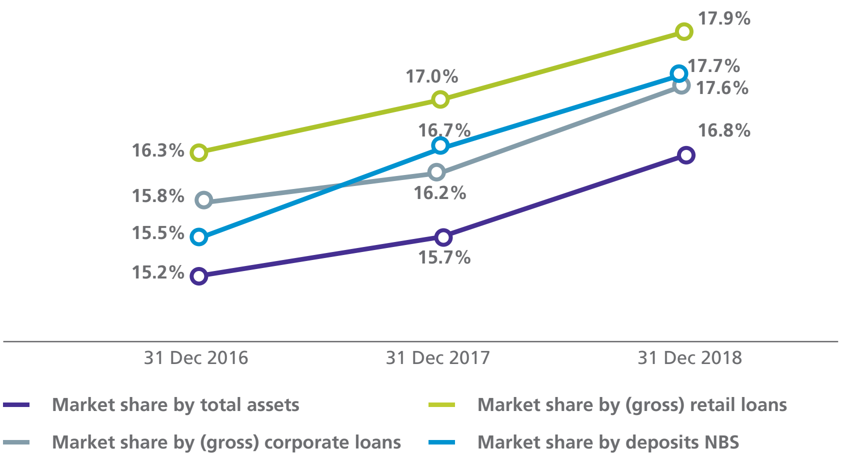


Figure 57: 3-year market share evolution

NLB Banka, Podgorica

The bank is the 5th largest bank in Montenegro, with a market share in total assets of 11.1%. The predominant strength of the bank is seen in the segment of retail housing and consumer loans, where the bank is an important player on the market. In addition, the bank is also increasing importance in the corporate sector with a client focus and digitalisation. One of the most successful retail products launch in the year was consumer loan NLB Super Fast Cash Loan.

Despite the competitive market environment, a positive performance was recorded for the fifth year in a row and the best result in the history of the bank (since owned by NLB). This provided the basis for a dividend payment for the second year in a row.

The growth in Montenegro slightly decreased, although still on high levels due to strong performances from both the domestic economy and the external sector. The bank recorded a profit after tax of EUR 10.0 million (2017: EUR 5.4 million) and profit before impairments and provisions in the amount of EUR 11.5 million (2017: EUR 9.1 million). Exceptional business performance wes is also visible in increased ROE a.t. 14.9% (2017: 7.0%), decreased CIR at 51.8% (2017: 57.7%), and capital adequacy of 16.2% (2017: 14.9%). The positive result was a consequence of the increased result before provisions, and lower net impairments and provisions, with 9.9% growth of net interest income (driven by a growing performing portfolio and improved structure in favour of loans with higher yields), and 12.9% growth of net non-interest income (driven by increase in card operations, fees from basic accounts, and other net income due to selling of repossessed assets), while succeeding to reduce the level of total costs by 0.6%. Total assets of the bank rose by 7%, with a 17.2% growth in net loans to the non-banking sector, and 9% growth in deposits from the non-banking sector. The asset quality was improved as well, and the NPL ratio was decreased to 5.2% (2017: 8%).

Retail had a 15% growth in net loans, higher compared to the banking sector with 13.8% growth, with a market share in retail gross loans reaching 16.0% (2017: 15.9%). Performance was excellent with the main factor of growth being consumer loans – a new product called “Super fast cash loan” requiring only one visit to the branch for the client. The bank is the market leader in housing loans with a 25% market share, and a 23% market share in new production (2017: 27% and 23%, respectively). An acceleration in the issuing of housing loans was noticeable in the Q4 due to housing project 1000+ that was run by the government. The better structure of interest-bearing assets influenced the increase of average interest rates on assets with increased net interest margin.

Corporate had a 17.2% growth in net loans, and the banking sector had 8.4% growth and a market share of 7.6% in corporate gross loans (2017: 7.1%). Performance of the corporate segment was also exceptional with EUR 97.6 million of new business meaning growth of 20.3% (large corporate growth 19.5% and SME growth 22.5%). Interest rates are decreasing, however, with a slower pace compared to 2017.

The main opportunities of the bank in the future are: the SME segment in tourism, the upgrade of comprehensive support for customers, an upgrade of clients’ experience in all segments with the use of modern technology and development of sales staff to be able to support and advise customers’ decisions and to enable the best client experience.

Highlights:

- **The best result in the history of the bank with recorded profit after tax of EUR 10.0 million.**
- **More than 17% growth of net loans.**
- **Substantial increase in ROE a.t. achieving 14.9%.**

The bank owes its influence on the financial market to an active role in all areas of social development. It carries out its socially responsible acitivities through donations approved primarily to organisations of social importance (educational, health, public, institutions for persons with special needs, etc.), but also to organisations registered for community assistance in directly dealing with charity work.

The most significant socially-responsible projects in the year were the donation of the first electric bus to one of Montenegro municipality, premium sponsorship contract with Basketball Club “Buducnost Voli”, and the campaign “Mali koraci mijenjaju svijet nabolje”, which improved the conditions in several Montenegrin maternity hospitals.

Martin Leberle
President of the
Management Board

Table 21: Key performance indicators of NLB Banka, Podgorica*

in EUR thousands

Key performance indicators	2018	2017	Change YoY
Net interest income	18,047	16,416	9.9%
Net non-interest income	5,771	5,110	12.9%
Total costs	-12,340	-12,414	0.6%
Impairments and provisions	-1,267	-3,807	66.7%
Result before tax	10,211	5,305	92.5%
Result after tax	10,033	5,385	86.3%
Financial position statement indicators			
Total assets	489,283	457,236	7.0%
Loans and advances to customers (net)	310,692	265,062	17.2%
Deposits from customers	391,750	359,736	8.9%
Equity	68,937	66,975	2.9%
Key financial indicators			
Capital adequacy ratio	16.2%	14.9%	1.3 p.p.
Interest margin**	4.1%	3.7%	0.4 p.p.
Return on equity after tax (ROE a.t.)	14.9%	7.0%	7.9 p.p.
Return on assets after tax (ROA a.t.)	2.1%	1.1%	1.0 p.p.
Cost-to-income ratio (CIR)	51.8%	57.7%	-5.9 p.p.
Non-performing loans (NPL)	20,627	31,054	-33.6%
Non-performing loans/total loans (NPL)	5.2%	8.0%	-2.8 p.p.
Market share in terms of total assets	11.1%	11.0%	0.1 p.p.
LTD (Net loans to customers/Deposits from customers)	79.3%	73.7%	5.6 p.p.

* Data on a stand-alone basis as included in the consolidated financial statements of the Group.
** Interest margin for 2017 is adjusted to the new methodology valid from 1 January 2018.

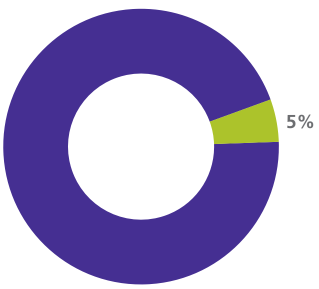


Figure 58: Contribution to NLB Group profit after tax – on consolidated basis

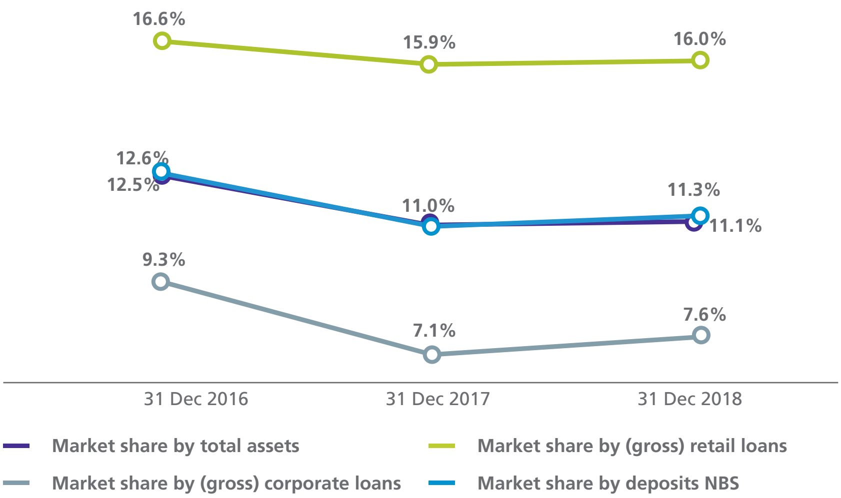


Figure 59: 3-year market share evolution

NLB Banka, Beograd

The bank is the seventeenth largest bank in Serbia, with a 1.5% market share in total assets with a specific focus on supporting agro business where it achieved a 12.6% market share. As Serbia is a market with great potential, the bank puts a lot of emphasis on trade finance, client experience upgrade, renewed branch formats, improved e- and m-banking solutions, and new services like Instant Transfer, a service available 24/7 that enables customers to pay up to 300,000 dinars in real time.

The economic growth in Serbia surged, mainly due to rising disposable income and sustained remittance inflows which supported private consumption. The bank realised a profit after tax in the amount of EUR 5.2 million (2017: EUR 3.7 million) and profit before impairments and provisions in the amount of EUR 5.6 million (2017: EUR 4.7 million). The better result resulted mainly of accelerated new loan production which contributed to higher ROE a.t. 7.9% (2017: 6.7%). The bank recorded a 27% growth in net non-interest income YoY. CIR was still relatively high (76.2%), but with a decreasing tendency compared YoY (2017: 77.8%), while total capital adequacy was 16.7% (2017: 20.1%). Total assets of the bank rose by 31%, with a 34% growth in net loans, and 36% growth in deposits from the non-banking sector. The NPL ratio was further reduced to 2.4% (2017: 5.0%).

In terms of funding, invested effort resulted in the growth of deposits in both the corporate and retail segments; the bank has a market share of 1.5% (2017: 1.4%).

Retail recorded a 32% growth in net loans, way above the Serbian banking sector dynamic reaching 11.2% growth, and increasing market share in retail gross loans to 1.6% (2017: 1.5%). The loan portfolio is dominated by cash/consumer loans in local currency, representing 82% of the retail portfolio. The interest margin on cash loans is high, but under significant pressure. To diversify the product mix, more focus was put on housing loans. This resulted in housing portfolio growth of 41% with good prospects in the years ahead, and opportunities for cross-selling.

Corporate recorded a 37% growth in net loans, comparing well with the 2.7% decrease in the Serbian banking sector, and a market share of 1.6% in corporate gross loans (2017: 1.2%). The portfolio is dominated by loans to SMEs (79% of the corporate portfolio). Higher demand is noted in FX loans due to lower nominal interest rates. The portion of local currency RSD loans in the new production is steadily increasing. Interest rates are decreasing, however with a slower pace compared to 2017 (2018: 2.9%, 2017: 3.2%). The predominant strength of the bank is agro business with a market share of 12.6% (2017: 10.1%). During the year, the bank was the market leader in loans to farmers subsidised by the Serbian Ministry of Agriculture (22% share in total new production of such loans in the banking sector).

The focus of the Bank's strategy is growth of loans and deposits, with the main opportunities in cross-selling, the large companies segment, continuation of very successful work in the agro segment, and improving client experience.

Highlights:

- **Well-positioned the in agro segment (12.6% market share).**
- **Increased total assets of the bank by 31%.**
- **Improved e- and m-banking platforms.**

The Association of Journalists for Agriculture has awarded the bank for the contribution to the development of agribusiness. For the 7th year in a row the bank organized the "NLB Organic competition", a landmark project which recognises and awards the best organic production projects, supporting environmental protection and sustainable development. The bank also supported agribusiness by sponsoring agriculture events in Serbia. In the domain of socially responsible business, the bank devotes special attention to humanitarian actions and made several donations to hospitals, schools, kindergartens, and others.

Branko Greganović
President of the
Management Board

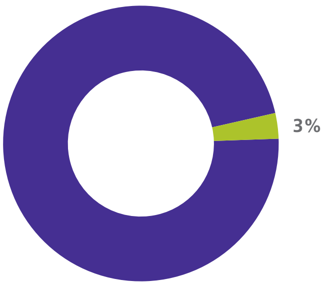


Figure 60: Contribution to NLB Group profit after tax – on consolidated basis

Table 22: Key performance indicators of NLB Banka, Beograd*

in EUR thousands

Key performance indicators	2018	2017	Change YoY
Net interest income	19,764	17,984	9.9%
Net non-interest income	3,832	3,015	27.1%
Total costs	-17,981	-16,336	-10.1%
Impairments and provisions	-377	-919	59.0%
Result before tax	5,238	3,744	39.9%
Result after tax	5,202	3,731	39.4%
Financial position statement indicators			
Total assets	484,492	370,807	30.7%
Loans and advances to customers (net)	318,792	238,795	33.5%
Deposits from customers	352,940	259,755	35.9%
Equity	67,686	61,444	10.2%
Key financial indicators			
Capital adequacy ratio	16.7%	20.1%	-3.5 p.p.
Interest margin**	4.9%	5.8%	-0.9 p.p.
Return on equity after tax (ROE a.t.)	7.9%	6.7%	1.2 p.p.
Return on assets after tax (ROA a.t.)	1.2%	1.2%	0.1 p.p.
Cost-to-income ratio (CIR)	76.2%	77.8%	-1.6 p.p.
Non-performing loans (NPL)	9,884	15,184	-34.9%
Non-performing loans/total loans (NPL)	2.4%	5.0%	-2.6 p.p.
Market share in terms of total assets***	1.5%	1.2%	0.2 p.p.
LTD (Net loans to customers/Deposits from customers)	90.3%	91.9%	-1.6 p.p.

* Data on a stand-alone basis as included in the consolidated financial statements of the Group.
** Interest margin for 2017 is adjusted to the new methodology valid from 1 January 2018.
*** Data for 2018 are per 30 September 2018.

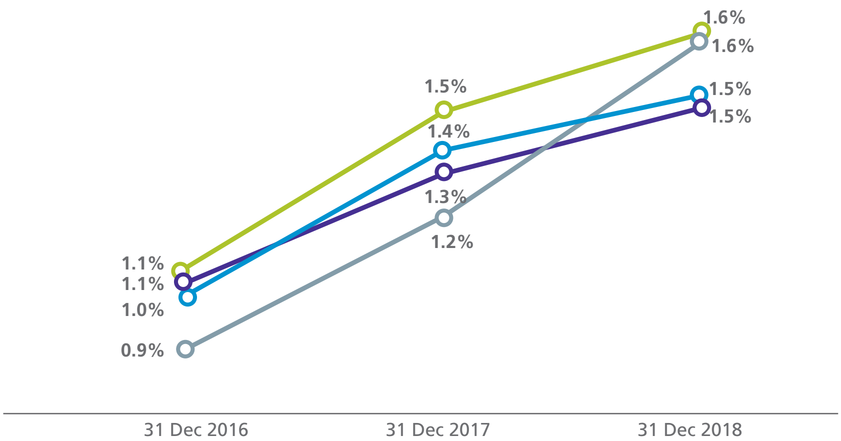


Figure 61: 3-year market share evolution

Chapter 11

Financial Markets

The segment is focused on the Group's activities on international financial markets, including treasury operations. In the challenging environment of low interest rates on financial markets, the continuous focus was on prudent liquidity reserves management. Wholesale funding activities contribute to Group's funding and were conducted with the aim of achieving diversification, and fulfilling regulatory requirements.

The segment includes income generated by the liquidity reserves, as well as the surplus from fund transfer pricing to other business segments in Slovenia. Financial markets in Slovenia recorded a profit before tax of EUR 24.0 million, despite a negative interest rate environment and low returns on the international fixed income market.

Net interest income in Financial markets in Slovenia 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. The decreasing LTD contributed to increased cash equivalent positions with negative yield, partially reallocated into banking book securities. Management of the structure and volume of banking book securities and the hedging derivatives portfolio is aimed at optimisation of net interest income that should benefit from potential improvements in the interest rate environment.

The Group's ALM

The purpose of the Group ALM process is to manage the Group's balance sheet with respect to the interest rate, currency, and liquidity risk considering macroeconomic environment and financial markets development. Monitoring and management of the Group's exposure to market risk is decentralised. Uniform guidelines and limits for each type of risk are set for individual Group members. The methodologies are in line with regulatory requirements on an individual and consolidated level, while reporting to the regulator on the consolidated level is carried out using a standardised approach. Pursuant to the relevant policies, the Group members must monitor and manage exposure to market risks and report to the Bank accordingly. The exposure of an individual Group member is regularly monitored and reported to the Group Asset and liability committee (Group ALCO).

From the **interest rate risk** perspective, the low interest rate environment and surplus liquidity position of the Group contributed to further growth of fixed interest rate loans, mostly retail loans, and investments in high quality debt securities. In terms of funding, non-banking sector deposits continued to increase mostly in the form of sight deposits and savings accounts. The Group manages interest rate positions and stabilises its interest margin by actively adjusting pricing policy, whereas for managing interest rate risk exposure the Group also uses plain vanilla derivatives, in line with the Group's conservative risk appetite. Additionally, the exposure to interest rate risk has been managed via fund transfer pricing and external pricing policy. Active profitability management has been supported by a highly disciplined deposit pricing policy, enabling the response to a very competitive loan market all over the Group's strategic markets.

Highlights:

- **Optimisation of asset management of the Bank and the banking subsidiaries.**
- **Well diversified banking book portfolio from geographical and asset class perspective.**

Table 23: Performance of the Financial markets segment in Slovenia*

in EUR million consolidated

	2018	2017	Change YoY	
Net interest income	31.4	31.9	-0.4	-1%
Net non-interest income	-1.1	-0.9	-0.2	-26%
Total net operating income	**30.3**	**31.0**	**-0.7**	**-2%**
Total costs	-6.5	-6.7	0.1	2%
Result before impairments and provisions	**23.8**	**24.3**	**-0.5**	**-2%**
Impairments and provisions	0.2	0.0	0.3	-
Result before tax	**24.0**	**24.3**	**-0.3**	**-1%**
	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.	

* Investment banking and custody services as a part of the Financial markets in Slovenia segment is represented as a separate part in the chapter Corporate and Investment Banking in Slovenia. 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 the new methodology.

The Group's FX risk is measured and managed with the use of a combination of sensitivity analysis, VaR and stress test scenarios.

In terms of the **liquidity risk management**, each Group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification, and for managing liquid assets and fulfilling the requirements of regulations governing liquidity.

Liquidity reserves management

The Group's liquidity management focuses on ensuring a sufficient level of liquid assets to settle all due liabilities, minimising the cost of maintaining liquidity, optimising the structure of liquidity reserves, ensuring an appropriate level of liquidity for different situations and stress scenarios as well as anticipating emergencies and crisis conditions and implementing appropriate contingency plans.

Liquidity reserves management in the Group is decentralised. Each Group member is responsible for its own portfolio, while Financial Markets in Slovenia manages liquid assets of the Bank.

The Group's liquid assets as at year-end were comprised of a cash equivalent (EUR 1,705 million), a debt securities portfolio (EUR 3,327 million), and credit claims eligible for central bank secured funding operations (EUR 141 million). The liquid assets portfolio represents 41% of total assets corresponding to EUR 5,172 million (45% as at 31 December 2017). 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. A small part of liquid assets (EUR 426 million as at year-end) was encumbered for operational and regulatory purposes. Liquidity reserves represent liquid assets which are not encumbered and can provide funding of future core growth.

41%
liquid assets (% of total assets)

73%
government securities in the Group's banking book portfolio

4.15 years
average maturity of the Group's banking book portfolio

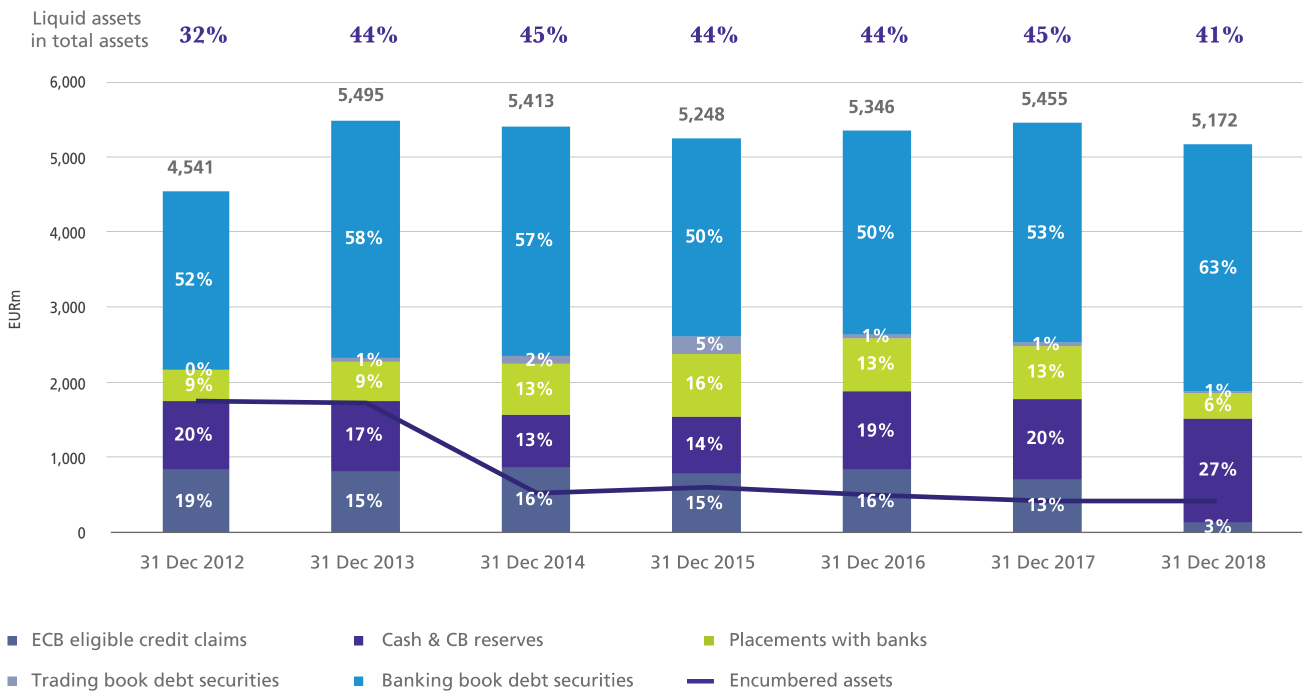
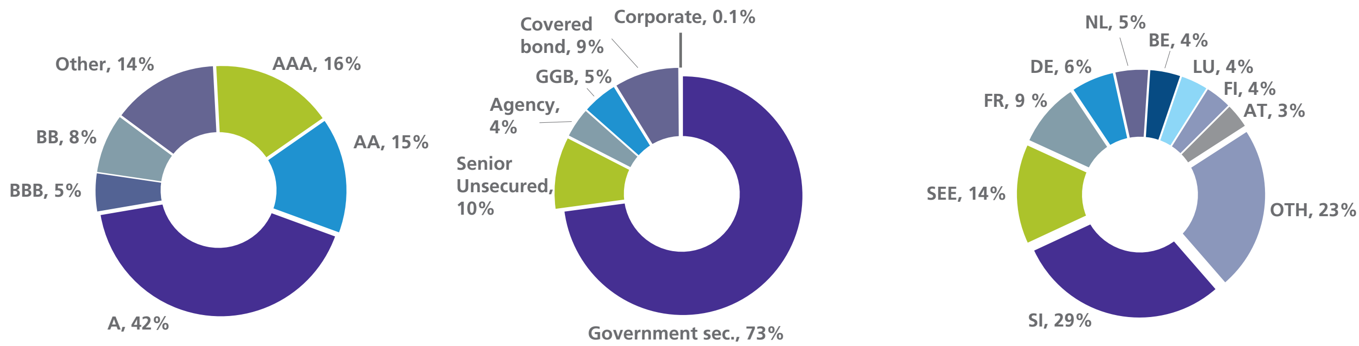


Figure 62: Evolution of NLB Group liquid assets structure (in EUR million)



"Other" in split of the portfolio by rating mostly represents exposures towards the sovereigns of subsidiary banks.

Figure 63: Banking book portfolio of NLB Group by Fitch rating, asset class, and by geographical structure as at 31 December 2018

Table 24: Maturity profile of NLB Group's banking book securities as at 31 December 2018

in EUR million

	2019	2020-2021	2022-2023	2024+	Total
Domestic securities (the Group strategic markets)	371.2	415.2	151.7	478.9	1,417.0
Slovenia	192.3	239.2	66.6	467.4	965.4
Other SEE	179.0	176.0	85.1	11.5	451.6
International securities	287.6	287.3	583.2	702.8	1,860.9
Total	**658.8**	**702.6**	**734.9**	**1,181.7**	**3,278.0**

Banking book debt securities constituted 63% of the Group's liquid assets as at year-end. The purpose of the banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management. When managing the portfolio, the Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings.

The portfolio is well diversified from the geographical and asset class perspective, while the prudent tenors of the investments also reflect the conservative risk appetite of the Group.

The average maturity of banking book securities was approximately 4.15 years in 2018 (3.95 years in 2017).

The average yield on the Group's securities was 1.4% (1.6% in 2017). The Group liquid assets portfolio as at year-end represented investments with yields ranging from -0.40% (placements at ECB) to higher yields achieved on the market for certain asset classes.

Wholesale funding

Wholesale funding activities in the Group are conducted with the aim of achieving diversification, improving structural liquidity, and fulfilling regulatory requirements. The Group undertook an active liability management approach with the optimisation of its long-term liabilities through improvements of financial conditions of certain agreements.

Chapter 12

Non-core Markets and Activities

Highlights:

- Positive contribution to the Bank's results.
- A decrease in the costs of operations, which were reduced by as much as 16% YoY to the level of EUR 18.2 million (2017: EUR 21.7 million).
- Several individual exposures to clients in different foreign markets were resolved, thereby contributing to a reduction in NPL and off-balance sheet exposure.

The Non-core segment includes the operations of non-core Group members and the non-core part of the Bank's portfolio, consisting of loans to foreign clients and a limited number of remaining Bank's equity participations, which are to be terminated. The main objective in the Non-core segment is a rigorous wind-down of all non-core portfolios and the consequent reduction of costs. The implementation of the wind-down has been pursued with a variety of measures, including the sales of portfolios, sales of individual assets, the collection or restructuring of individual assets, and active management of real-estate assets.

The Non-core markets and activities pre-tax result was once again positive and amounted to EUR 8.2 million (2017: EUR 31.2 million). The result was lower YoY due to the reduction of the non-core portfolio, and consequently the reduction of net interest and net non-interest income. Costs were reduced by as much as 16% YoY to the level of EUR 18.2 million (2017: EUR 21.7 million).

Total assets in the segment of Non-core markets and activities of the Group amounted to EUR 263.7 million. The figure was reduced by EUR 127.6 million YoY in line with the Restructuring plan and the strategy of non-core divestment. The large majority of the non-strategic assets comprise loan exposures (approximately 61%), a smaller share of investment properties and properties & equipment received for the repayment of loans (approximately 26%), and other assets.

The wind-down of the Non-core segment in 2018 included:

- a reduction of the Bank's credit business with foreign clients
- divestment of non-strategic Group members
- sale of the Bank's equity participations
- active management of real estate assets.

Reduction of the Bank's credit business with foreign clients

The wind-down of the legacy portfolio continued in line with the restructuring plan. The Bank was able to resolve and therefore remove from its exposure a significant number of individual cases in Croatia, BiH, Montenegro, Bulgaria, the Czech Republic, Austria, and Germany with a positive P&L effect.

Divestment of non-strategic Group members

Non-strategic Group members, including those with operations in leasing, factoring/trade finance, and real estate are in the process of being wound-down, with new business being suspended in all subsidiaries. The total portfolio of non-strategic subsidiaries is decreasing through regular repayments, collection, and restructurings. In the years 2015 – 2017 a liquidation process has been initiated in almost all non-strategic subsidiaries. The liquidation process is running with thoughtful cost management and well established collection procedures, whereas some of non-strategic members were successfully divested, such as NLB Propria in 2018.

Sale of the Bank equity participations

The Bank has continued divesting its equity participations, and consequently by the end of the year the overall asset volume of equity participations is at EUR 0.99 million (2017: EUR 0.90 million), due to increase of market price for some remaining participations. At the end of 2018 there were still nine participations in the portfolio.

Table 25: Results of the Non-core markets and activities segment

in EUR million consolidated

	2018	2017	Change YoY	
Net interest income	9.3	16.8	-7.5	-44%
Net non-interest income	5.2	23.2	-18.0	-78%
Total net operating income	**14.5**	**40.0**	**-25.5**	**-64%**
Total costs	-18.2	-21.7	3.5	16%
Result before impairments and provisions	**-3.7**	**18.2**	**-22.0**	**-**
o/w non-recurring items	-	10.7	-	-
Impairments and provisions	11.9	12.9	-1.0	-8%
Result before tax	**8.2**	**31.2**	**-22.9**	**-74%**
	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%

Active management of real-estate assets

The remaining NPL exposure divestment process is being facilitated through a specialised team for collateral real-estate repossessing, managing, and divesting. Real estate expertise and services are offered to the Group members so they are able to most efficiently divest remaining NPL, or to repossess collateral real-estate. Besides the Group's REAM, local management entities remain in four relevant markets: Slovenia, Croatia, Serbia, and Montenegro, also offering local support to other Group markets.

The main task of these management teams is to ensure value-preserving strategies for the management of real estate, respectively the collateral value of NPL claims by either temporarily repossessing real estate or ensuring a value-preserving divestment process of the real-estate or a claim. From 2015 to 2018 the team executed or supported real-estate transactions with a total sales value of over EUR 123.58 million, and directly or indirectly contributed to a EUR 407.95 million of NPL reduction, including EUR 77.90 million in 2018 alone.

Over

EUR 159.9 million

Reduction of gross loans to foreign clients in 2018

Over

EUR 26.1 million

the total sales value of real estate transactions executed or supported by the real-estate team in 2018

Chapter 13

Processing Operations and IT

Processing operations

Processing operations, namely Payments processing and Cash processing, is a notable part of the Group operations demanding special expertise and permanent investments in the development of technical/infrastructural support. By ensuring high quality services and support to the Group's operations, the Bank is regarded as the most trusted payment and cash supply service provider in Slovenia. Facing higher/emerging customer demands and a rapidly changing environment, the Group is constantly challenged to retain its role and current market position in this area also in the future.

Payment processing

In recent years the regular positive trend to augment volumes of payments and improve respective financial results has also continued in 2018. The Group processed 146 million payment transactions in a total of EUR 263 billion, and achieved a 1.0% increase over 2017. The higher volume of processed transactions has contributed to the improved financial outcome. In 2018 the realised income of the Group related to payments processing has risen to EUR 50 million, and represents a significant part (34.0%) of the Group net fees and commissions. This confirms that the Group successfully retains its role as an important market player and trusted payments service provider, as demonstrated by the high market share. The Bank's market share in the payments systems in Slovenia has increased augmented to 24.1% (compared to 23.9% in 2017).

In order to accommodate the ever-increasing customer demands, the Group is continuously improving the efficiency of processing, thus securing the best customer experience. Due to new trends on payment markets (digitalisation) and rising customer expectations, special emphasis is dedicated to simple and efficient services. In this respect, in 2018, significant progress was made in the development and gradual introduction of instant payments which shorten the execution time to a few seconds.

An attractive commission for corporate clients for payments within the Group and Bank access to SWIFT GPI - Global Payments Innovation were important steps towards improved cross-border payment services.

Cash supply and processing services

Cash services are an important part of the Bank's product line which aims to satisfy customers' needs. The Bank is successfully pursuing the goal of standardisation and unification of services on the Group level, which is one of the key tasks in the future as well. On all markets where the Group is present, cash supply services are provided with their own capacities for the needs of the Group. However, on two markets (Slovenia and Macedonia) all-round cash supply services for several other commercial banks are performed. In total, the Group banks provide cash supply services for 873 bank branches and 1,210 ATMs in total, including the Group banks and other banks branches and ATMs.

Know-how, own application support for cash supply operations, and high-performance technology enables the Group to further automate operations, especially in the regions with the highest volumes of such business.

One of the most important goals in the recent period is ensuring a high level of ATM network performance, establishing even better control over ATMs operation, and the systematic reduction of errors.

Information Technology

The Group has been providing its clients sustainable and satisfactory services supported through highly reliable and secure technology platforms. The technology transformation strategy has entered the implementation phase and is based on proven market leading innovative technologies to further enhance customer experience. The Group has also undertaken important steps in improving the regional governance and joining collaborative efforts to add leverage of new investments for clients of the whole Group.

Highlights:

- **The availability of the information systems is at an extraordinary high level (99.9%).**
- **The Bank is introducing key new platforms from world-leading providers for digital banking, integration and data management.**
- **Cyber security capabilities are continuously monitored and strengthened to provide safe and robust services.**

24.1%
Payment services market share by the Bank

2,083
Total cash points supplied by the Group

873
Bank branches supplied by the Group

1,210
ATMs supplied by the Group

IT infrastructure and reliability

IT performance is monitored through a set of relevant indicators that are linked to the Balanced Scorecard (BSC) system. The indicators show the high performance of IT operation and successful risk management in this area. The availability of the information system is at an extremely high level (99.9%), and the share of unplanned interruptions is very low (0.04%).
With users of the information system, harmonised Service Level Agreements (SLA) are in place, which the Bank managed to fulfill in a very high proportion. The satisfaction of IT users is regularly monitored, and the Customer Satisfaction Index for internal users is 83% and external 93%. The Group is constantly striving to improve IT processes to maintain at least at the 3rd maturity level (COBIT). High IT operational performance is also recorded in the Group members.

Main IT initiatives

In 2018, the Bank mostly focused on procurement and implementation planning for strategic platforms as a part of the technology transformation initiative.
The Bank has contracted market-leading providers for the implementation of a comprehensive data management platform, hybrid integration platform, as well as a digital banking platform. The Bank will continue investing in these technologies and capabilities to support the business strategy, and to achieve superior client experience in terms of quality, innovation, reliability, and security.

In addition to the transformation initiative, the Bank has delivered some major improvements in mobile banking offering, aside from the existing fully mobile end-to-end loan origination process for private individuals and small enterprises. The Bank has been the market front-runner in the introduction mobile payments with NLB Pay. The Bank is providing timely implementations of instant payments initiative, has supported the introduction of product bundling within pricing initiatives, and has successfully supported the privatisation process, including the sales of common share in NLB branches.

The technology transformation of the Group follows the principles of open architecture. Hence, all the subsidiaries of the Group are investing in providing standardised access to their core systems which will enhance their integration and innovation capabilities.

The Bank has important synergies in centralising regional IT governance, including the sourcing and procurement practices.

Cyber security

The Group is dedicating special attention to cyber security, and consequently assuring confidentiality, integrity, and availability of data, information, and IT systems that support banking services and products for customers. Cyber security in the Group is constantly tested and upgraded by applications, network and IT infrastructure security assessments, independent reviews, and penetration testing. Cyber security is regularly discussed on the Bank's Information Security Steering Committee and Management Board meetings. In 2018, the Security Operations Centre (SOC) was set up in the Group to monitor security events, detect anomalous behaviour in information systems, and enable swift incident response if needed. In 2018, no cyber security incidents occurred that had an impact on customer services or IT processing.

All employees in the Group are also being continually educated about on the importance of information/cyber security. The Group banks are providing employees and customers with security notifications, especially in the occurrence of threats in the (global) environment with potential impact on the banks' IT systems, services, and products. The Bank is also testing the awareness of its employees with social engineering attack simulations.

Digital channel penetration per markets

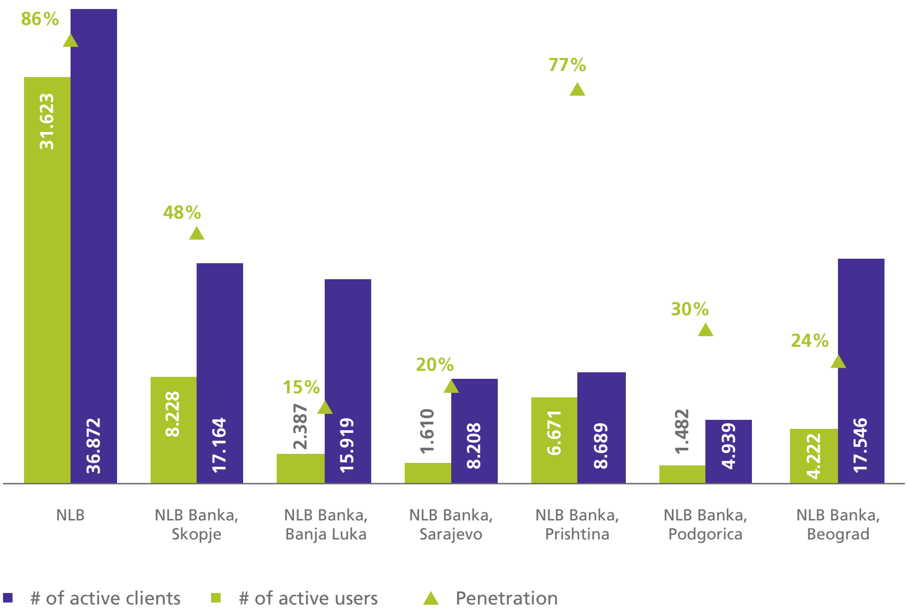


Figure 64: E-banking penetration for corporate clients Group banks

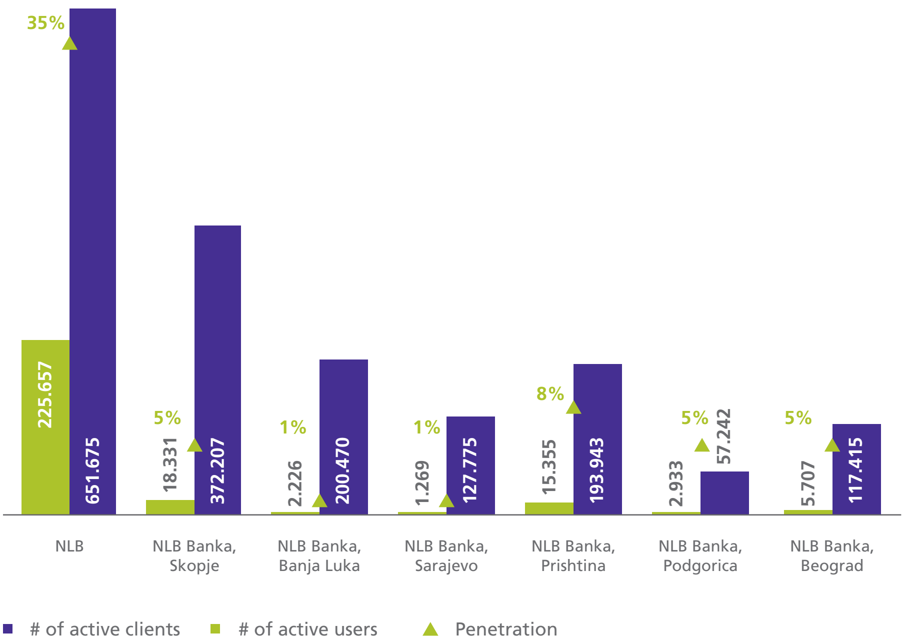


Figure 65: E-banking penetration for private individuals per Group banks

Chapter 14

Risk Management

Self-funded, strong liquidity and a strong capital position continued in 2018, demonstrating the Group's financial resilience. Efficient managing of risks and capital is crucial for the Group to sustain long-term profitable operations. Robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group, with the aim to proactively support its business operations. Risk management in the Group is in charge of managing, assessing, and monitoring risks within the Bank as the main entity in Slovenia, and the competence centre for six banking subsidiary banks. Furthermore, it is also responsible for several ancillary services companies and non-core subsidiaries which are in a controlled wind-down.

In the year 2018 the Group's credit portfolio quality remained overall solid and improved further with a stable rating structure and portfolio diversification. The Group experienced healthy lending growth and the negative cost of risk, resulting from an improved macroeconomic environment and active management of NPLs. The stock of NPE volume further decreased, as a result of successful restructuring of some major exposures and the recovery of NPL, and approached the average EU banking level. In addition, the coverage ratio remains high above the EU average, enabling further NPE reduction without significant influence on the cost of risk in the years ahead. Positive trends have been recorded in almost all SEE region, in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real-estate market.

In the still negative interest rate environment, the Group faced growing excess liquidity, whereby significant attention was put into the structure and concentration of liquidity reserves by incorporating early warning systems, while keeping in mind the potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products resulted in moderately increased interest rate risk exposure, which stayed within the risk appetite tolerance toward this risk. Moreover during 2018 the Group's capital and liquidity position remained strong at both, the Group and subsidiary bank levels, standing well within the targeted risk appetite profile.

The Group was included into the 2018 ECB stress test exercise, whose qualitative outcomes were included in the determination of Pillar 2 Requirement, namely as an element of risk governance, and setting the Pillar 2 Guidance. The final results of the bottom-up stress test for the period of 2018-2020 showed that even in a very unfavourable market conditions defined by the EBA and ECB, the Group holds sufficient resilience in terms of capitalisation. The Group was able to conclude the stress test exercise in the second cycle of a total of three, as an early termination, by providing sufficient quality assurance.

Risk management principles

The Bank is, as a systemic bank, involved in the Single Supervisory Mechanism, whereby the supervision is under the jurisdiction of the Joint Supervisory Team of the ECB and the BoS. ECB regulations are followed by all Group members, where the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. Across the Group, assessments are made and risks managed in the Group uniform manner, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's risk management standards.

The business and operating environment, relevant for the Group operations is changing, with trends such as changing customer behaviour, emerging new technologies and competitors, and increasing new regulatory requirements. This considers that risk management is continuously adapting with the aim of detecting and managing new potential emerging risks.

The Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group. The main risk principles are integrated into the Group Risk Strategy, designed in accordance with the business strategy and risk appetite orientations. Special focus is put on the inclusion of the risk analysis into the decision-making process on strategic and operating levels, diversification in order to avoid a 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 assure 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 the risk management system is essential. Moreover, in 2018 the ICAAP process was substantially upgraded in accordance with the newly published ECB guidelines, including its stronger integration into the overall risk management system in order to assure proactive support for informed decision-making.

Proactive risk management in 2018

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 per cent of TLOF on the sub-consolidated level of the NLB Resolution Group (NLB 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 the MREL requirement is a 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, also incorporating 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 the highest quality capital, which is above the EU average as published by the EBA. In line with SREP requirement, CET 1 and the total capital ratio of the Group already meets the 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 levels, which are well above the risk appetite with the LCR of 361% and the unencumbered eligible reserves in the amount of EUR 4.742 million. Even in the event the stress scenario would be realised, 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 a 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

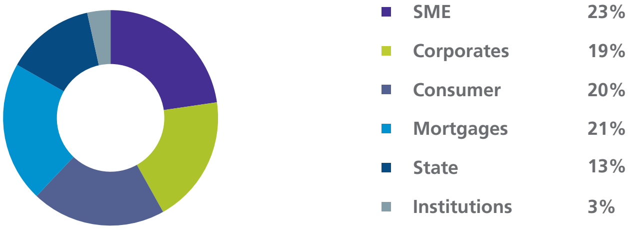
Highlights:

- **A more than 77.7% reduction of NPL portfolio in the last five years. The Group reduced its NPL legacy portfolio from EUR 2,798 million to EUR 622 million in the period from December 2013 – December 2018 on the basis of a proactive NPL reduction strategy, while NPL formation from new production is very low due to improved credit standards and other enhanced risk management tools. In 2018 amount of NPLs decreased by EUR 222 million, also exceeding the set targets in the Group's NPL Strategy.**
- **Favourable macroeconomic conditions, prudent credit policy principles, and the proactive NPL management approach resulted in the negative cost of risk in over the last two years. Its evolution in the last five years was otherwise relatively stable, in accordance with set mid-term strategic orientations.**
- **The Group observed a steady and healthy growth in the retail portfolio, which increased by 29.3 p.p. over the last five years.**

on intensive and proactive handling of problematic customers, changes in the credit process and the early warning system for detecting an 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.

The 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 on the corporate segment the Bank established cooperation with selected corporate clients (through different types of lending/investments instruments). All other banking members in the SEE region, where the Group is present, are universal banks mainly focused on the retail and of medium-sized and small enterprises segments. Their primary goal is to provide comprehensive services to clients by taking prudent risk management principles into account. 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.

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 has had a positive influence on the approval of new loans. In the retail segment, especially in the consumer loan segment, positive



Note: Gross exposures also include reserves at Central Banks and demand deposits at banks.

Figure 66: NLB Group structure of the credit portfolio (gross loans and advances) by segment

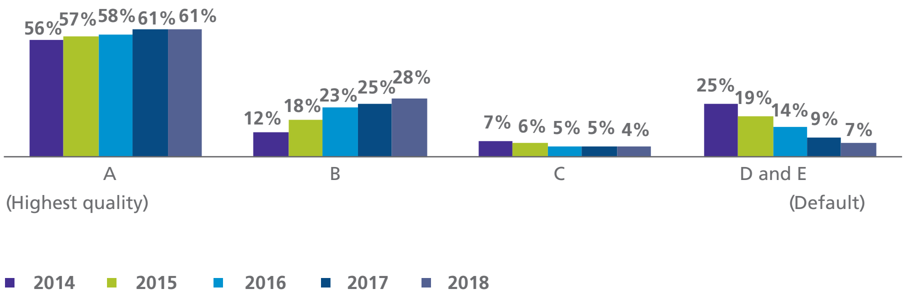


Figure 67: Structure of NLB Group credit portfolio by client credit ratings (in EUR million) as at year end

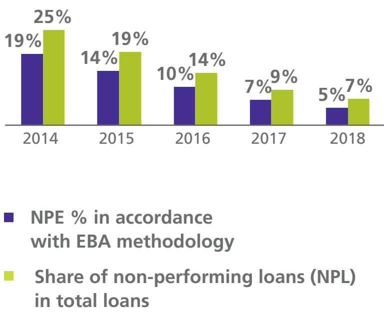


Figure 68: NLB Group NPE (NPE% by the EBA) and NPL ratio

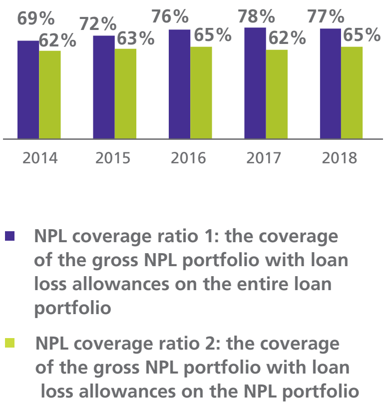


Figure 69: NLB Group Coverage ratio and NPL Coverage ratio

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 comes from new business, which represents 0.2% of the total portfolio. In addition, a favourable macroeconomic environment across region resulted in the 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 the improved quality of the 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 booked at amortized cost, while the remained minor part (0.5%) represents fair value loans through P&L (FVTPL). The portfolio quality in 2018 was very stable with increasing Stage 1 exposures and a reduction of NPL loans. 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 the other most frequent loan collateral types are insurance companies and guarantors.

The reduction of NPLs on the Group level remained a key focus in 2018. Precisely set targets in the Group's NPL Strategy, an 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 of the effects resulted in a 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. The active approach to NPL management gives strong emphasis on restructuring, and an increasing use of other active NPL management tools such as foreclosure of collateral, the sale of claims, active marketing and the sale of pledged assets.

An important Group strength is the NPL coverage ratio 1[21], which remains high at 77.1%. Furthermore, the Group's NPL coverage ratio 2[22] 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 comming years. Moreover, it proves that past reduction was done on average without a negative impact to the profit and loss account.

21. NPL coverage ratio 1: the coverage of the gross NPL portfolio with loan loss allowances on the entire loan portfolio.

22. NPL coverage ratio 2: the coverage of the gross NPL portfolio with loan loss allowances on the NPL portfolio.

361%
The Group LCR

4.7%
The Group
NPE % by EBA

- 43 bps
The Group Cost
of Risk was negative

When considering market risks, the Group pursues a low risk appetite for market risk in the 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 an aim to support the 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 in the case of the subsidiary banks, beside their domestic currencies, they also operate in euros, which is the reporting currency of the Group. The Group's net open FX position 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 recognised 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 the growth of fixed interest rate loans and the long-term banking book securities on the assets side and transformation of deposits from term to sight as a consequence of the low interest rate environment and excessive liquidity.

The Group manages interest rate positions and stabilises 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, for interest rate risk management the Group also uses plain vanilla derivative financial instruments such as interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements.

The net interest income sensitivity of the Group would amount to EUR 13.1 million in the case of a market interest rate increase by 50 bps, while in the case of a decrease exposure would be lower due to zero floor clauses included in the loan contracts. From an 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 a robust culture, the main qualitative activities refer to the reporting of loss events and identification, assessment and the 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 a scenario analysis referring to the 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 HR, processes, systems, and external conditions), were additionally enhanced. Their upgrade facilitates more detailed information for the 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. The 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 a stress testing framework is the subject of regular internal validations and back testing procedures.

Chapter 15

Corporate Governance

The corporate governance of the Bank is based on applicable legislation of the RoS, particularly the provisions of the ZGD-1 and the ZBan-2, the Decision on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks, and the relevant EBA Guidelines on internal governance, EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, as well as EBA Guidelines on remuneration practices. In compliance with Slovenian legislation, the Bank has a two-tier management structure under which the relationships between individual bodies are founded on a mutual division of rights and responsibilities. According to Articles of Association, the Bank's corporate governance bodies are as follows: the General Meeting of Shareholders, the Supervisory Board, and the Management Board.

The General Meeting of Shareholders

The General Meeting of Shareholders (General Meeting) is a body of the Bank through which shareholders exercise their rights, which include among others: decisions on corporate changes (amendments of the Articles of Association, increase or decrease of share capital) and legal restructuring (mergers, acquisitions), adoption of decisions on all statutory issues with respect to appointing and discharging members of the Supervisory Board and appointment of an auditor, distribution decisions (appropriation of distributable profit), and granting of discharge from liability to the Management and Supervisory Board. Competences of the Bank's General Meeting are stipulated in the ZGD-1, ZBan-2, and the Articles of Association.

Shareholders exercise their rights related to the Bank's affairs at the General Meeting of the Bank. The rights of the RoS, as the sole shareholder of the Bank, were until 14 November 2018 represented by the SSH. The first phase of privatisation of the Bank was thus concluded on 14 November 2018. On 31 December 2018 the RoS held 35% of shares of NLB, 55.36% of shares in the form of GDR was placed with the depositary (The Bank of New York Mellon).

During 2018 the General Meeting of the Bank met three times, namely:

On 9 April 2018, the 30th regular Shareholders' Meeting was held. The General Meeting adopted a decision in which it mandated the Bank's Management Board to take certain measures regarding the issue of transferred foreign currency deposits of Croatian depositors.

On 27 June 2018, the 31st regular Shareholders' Meeting was held. The General Meeting took note of the 2017 Annual Report, decided on the appropriation of distributable profit for 2017, and gave a discharge to the Management Board and Supervisory Board of the Bank for the business year 2017.

The profit for appropriation of the Bank as at 31 December 2017 amounted to EUR 270.6 million, and included a net profit of the business year 2017 in the amount of EUR 189.1 million and retained earnings of previous years in the amount of EUR 81.5 million. The General Meeting decided to keep the entire profit for appropriation in the amount of EUR 270.6 million undistributed as retained profit.

The General Meeting also took note of the 2017 Internal Audit report and appointed Ernst & Young d.o.o., Ljubljana, as the auditor of the Bank for business years 2018, 2019, 2020, 2021, and 2022.

On 12 October 2018, the 32nd regular Shareholders' Meeting was held. Following prior consent from the ECB, the General Meeting adopted a resolution for appropriation of distributable profit of the Bank in the amount of EUR 270.6 million (consisting of EUR 189.1 million of profit for the financial year 2017 and EUR 81.5 million of retained earnings from previous years) to its shareholders in a dividend, which is EUR 13.53 gross per share, and to keep the remainder of EUR 26,683.47 undistributed as retained profit.

Additionally, the General Meeting adopted amendments to Article 20 of Articles of Association, regulating the appointment and membership of the Bank's Supervisory Board in accordance with the EC decision binding the RoS to appoint only independent experts to the Supervisory Board of the Bank.

General information with respect to the convocation of a session of the General Meeting, participation in the General Meeting, and on the method of decision-making at the General Meeting, as required by the Article 70 (Paragraph 5, Point 5) of the ZGD-1, is set out in the section "Corporate Governance Statement".

Group's Corporate Governance

As the parent bank, the Bank implements corporate governance of the Group members in compliance with the EU and RoS legislation, local legislation, and regulatory requirements applicable to respective Group members, while also considering internal rules, the commitments made to the EC, ECB, and other applicable regulations.

The roles, authorisations, and responsibilities of individual bodies and organisational units, as well as how to coordinate their operations to achieve the set business goals are stipulated comprehensively in the NLB Group Corporate Governance Policy. In the Bank, the Group Steering Department is the principal partner of the Bank's Management Board in the governance of strategic and non-strategic Group companies, and is responsible for appropriate corporate governance, the alignment of strategies, and the objectives achieved by subsidiaries.

The Group is governed:

- In accordance with fundamental corporate rules through various bodies of the Group members:
    - by voting at general meetings of the Group members
    - with proposals for appointing the managements of the Group members
    - with proposals for appointing representatives of the Bank to supervisory bodies
    - by exercising supervision through the supervisory bodies of the Group members
    - through participation of Bank's representatives in various committees and commissions of the Group members.
- By mechanisms providing efficient business control in all business lines, harmonisation of the operating standards, and exchange of information between the Group members according to the Business Line principle.
- By additional supervision of the Group members by Internal Audit of the Bank and Compliance and Integrity of the Bank, as well as external supervisors (e.g. the ECB, the BoS, external auditors, and local regulators).

In recent years the concept of corporate governance of the Group has been upgraded, and the role of members of the Management Board of the Bank and management of the Group members strengthened. The target composition of supervisory bodies in the Group members was established, the functioning of the supervisory bodies optimised, and the reporting and standards related to the harmonisation of operations simplified.

In line with strategic aspirations, the concept of "country managers" was fully introduced with the main goal of supporting and steering the Group members, as well as being a strong link between Group members and the Bank. They also facilitate best practice sharing on different levels. At the end of 2018 one country manager covered Serbia and Montenegro, another both entities in BiH, and the third one in Macedonia and Kosovo. Stream coordinators were introduced at the end of 2018 to address the facilitation of more in-depth knowledge of business lines and greater integration between streams and the Group members, the increasing transmission of current information, needs and other requirements from the Group members, and exploitation of synergies at the Group level and coordination of regional projects.

Competences of the management bodies, the Articles of Association, and other data related to corporate governance are available at: https://www.nlb.si/corporate-governance.

Supervisory Board

The Supervisory Board performed supervision of the management of the Bank and its duty of diligent and prudent conduct in line with powers defined in ZGD-1 and supplemented by provisions of the Article 48 of ZBan-2, other regulations, and internal rules of the Bank (the Articles of Association and Rules of Procedures of the Supervisory Board of the Bank).

In accordance with Articles of Association, the Supervisory Board consists of nine members appointed at the General Meeting. The last time the composition of the Supervisory Board changed was on 8 September 2017, when three new members of the Supervisory Board were elected at the General Meeting. From the mentioned date and throughout 2018 the Supervisory Board was composed of eight members, namely: Primož Karpe - Chairman, Andreas Klingen - Deputy Chairman, and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek and Peter Groznik. On 30 November 2018, the Supervisory Board took note of the resignation of its members Simona Kozjek and Vida Šeme Hočevar. Members of the Supervisory Board submitted their resignation statements with a three-month notice in accordance with the Articles of Association, which follows the EC commitments on independence of all members of the Supervisory Board (in the field of corporate governance) that the RoS submitted to the EC in 2018. After the expiration of the notice period, the Supervisory Board will continue to work with full powers.

In accordance with the two-tier governance system and the authorisations for supervising the Management Board, the Banks' Supervisory Board issues approvals to the Management Board related to the Banks' business policy and financial plan, approves the strategy of the Bank and the Group, the internal control system organisation, the Annual Plan of the Internal Audit, and to all financial transactions. The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest.

In 2018, the Supervisory Board met at seven regular and four correspondence sessions. In addition to approvals mentioned above the Supervisory Board took the following decisions:

- Approved the materials for the Bank's General Meeting; Information on resignation of two members of the Supervisory Board; Proposal for the General Meeting on selection of the external auditor of the annual financial statements for NLB and the NLB Group

- Approved the NLB Group Annual Report for 2017 and the NLB Group Corporate Social Responsibility Report for 2017

- Approved key decisions on risk management (ICAAP, ILAAP, Recovery Plan, risk strategy, risk appetite, NPLs wind-down strategy, etc)

- Approved the Annual Plan of the Internal Audit and Compliance

- Acknowleged regular quarterly reports of the Audit, Compliance and Risk Function, etc.

- Acknowledged regular quarterly reports on State Aid – Status Reports; Reports on risks relating to the unfinished procedures before the EC regarding the State aid

- Acknowledged regular reports on documents received from the regulator(s)

- Acknowledged/Approved decisions on large exposures, sale of receivables, write-offs of claims and divestment of the Group companies.

Further information about the work and powers of the Supervisory Board is set out in the section "Corporate Governance Statement of NLB".

Primož Karpe, MSc
Chairman of the Supervisory Board
Term of office: 2016-2020

Education:

- Obtained a master's degree from San Diego State University (Master of Science - Business Administration)
- Graduated from the Faculty of Economics in Ljubljana (majoring in Finance)

Career:

- Director of Angler Ltd. Zagreb, Croatia (since 2015)
- Partner (passive - investor) at Blue Sea Capital SCSp, Luxembourg (2011 - to date)
- Partner (active - operational manager) at Blue Sea Capital SCSp, Luxemburg/ Zagreb (2011-2015)
- Co-founder and the leading partner in company Vafer Ltd. (2008-2010)
- Managing Director of company Publikum Korpfin d.o.o. (2007-2008)
- Head of the business development (M&A) department at Telekom Slovenija d.d. (2006-2007)
- Assistant to the CEO of Mobitel d.d. (2002-2006)
- COO at Eon d.o.o. (2000-2002)
- FX trader/head of the assets and liabilities management department at SKB banka d.d. (1996-2000)

Other important positions and achievements:

- Partner in a private equity fund investing in small- and medium-sized companies operating in traditionally stable or fast developing industries in the region of the former Yugoslavia (primarily health care – at both the primary and secondary levels, nutrition, and niche production)
- His specialties are the preparation, assessment, negotiating, and structuring of complex equity and debt transactions, and restructuring/business management

Membership in NLB Supervisory Board committees:

- Nomination Committee (Chairman)
- Audit Committee (Member)
- Remuneration Committee (Member)

Membership in management bodies of related or unrelated companies:

- Angler d.o.o. - Director

Andreas Klingen
Deputy Chair of the Supervisory Board
Term of office: 2015-2019

Education:

- Master of Business Administration, Rotterdam School of Management, Rotterdam, The Netherlands
- Master of Science in Physics, Technical University, Berlin, Germany

Career:

- Independent Banking consultant, entrepreneur, Berlin, Germany (since 2014)
- Deputy CEO, CFO PC Erste Bank, Kiev, Ukraine (2010-2013)
- Head of Strategic Group Development in Erste Group Bank, Vienna, Austria (2005-2010)
- Senior Vice President, Investment Banking, Financial institutions in JP Morgan, London, UK (1998-2005)
- Senior Associate in Lazard, Frankfurt/ Paris/London (1993-1998)

Other important functions and achievements:

- Member of Supervisory Board of Kyrgyz Investment and Credit Bank (since December 2016)
- Member of Supervisory Board of Credit Bank of Moscow (since November 2016)
- Member of the Board of Directors of Komercialna banka Beograd a.d. (November 2014 - November 2018)
- Member of Supervisory Boards of Banks in CEE and Russia (2005-2013)

Membership in NLB Supervisory Board committees:

- Nomination Committee (Deputy Chairman)
- Risk Committee (Chairman)

Membership in management bodies of related or unrelated companies:

- none

Alexander Bayr, Mag
Member of the Supervisory Board
Term of office: 2016-2020

Education:

- Faculty of Economics in Innsbruck (1985)

Career:

- Manager of Corporates and Real Estate, BAWAG PSK, Vienna (since 2013)
- CEO, BAWAG banka d.d., Ljubljana (2009-2012)
- Real Estate Projects, BAWAGPSK, Vienna (2008-2012)
- Management Board Member, Istrobanka a.s. Bratislava, Slovakia (BAWAG) (2004-2008)
- Management Board Member, Ludova banka a.s., Bratislava, Slovakia (Volksbank) (2000-2004)
- Sales Manager, Ascom Austria (1998-2000)
- Deputy Head of Large Corporates Department, Deutsche Bank, Austria (1997-1998)
- Key Customer Account Manager, Österreichische Volksbanken AG (1987-1997)
- Sales Manager, Unilever (1985-1987)

Other important functions and achievements:

- Member of the Management Board of the Chamber of Commerce of Slovakia-Austria (2000-2012)
- Member of the Supervisory Board of WKBG Bank, Austria (since 2016)

Membership in the NLB Supervisory Board Committees:

- Audit Committee (Deputy Chairman)
- Nomination Committee (Member)

Membership in management bodies of related or unrelated companies:

- WKBG Bank, Vienna; member of the Supervisory Board (since 2016)

David Eric Simon
Member of the Supervisory Board
Term of office: 2016-2020

Education:

- IFS School of Finance (1974)
- City of London College, UK (1970)

Career:

- Chief Restructuring Officer and Advisor to the General Manager, Czech Export Bank a.s. (2013-2014)
- Advisor, PricewaterhouseCoopers, Prague (2012-2013)
- Advisor (1994-2012), Head of Restructuring (2004-2007), Head of Central Europe Bad Debts Unit (2007 onwards) and Senior Restructuring Officer (2007-2012), Ceskoslovenska Obchodni Banka a.s.
- Independent Banking Consultant, cooperating with USAID and EBRD (1992-1994)
- International Banking Consultant, Morgan Grenfell & Co (1993-1994)
- Assistant General Manager Tijari Finance Limited (wholly owned subsidiary Commercial Bank of Kuwait), (1988-1992)
- Joint Branch Manager, Byblos Bank Sal, London (1986-1988)
- Assistant Vice President, American Express Bank, London (1980-1986)
- Senior Credit Analyst, Manufacturers Hanover Trust, London (1978-1980)
- National Westminster Bank, London (1971-1977)

Other important functions and achievements:

- Primary expertise in credit, restructuring, and NPL

Membership in the NLB Supervisory Board Committees:

- Audit Committee (Chairman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:

- Jihlavan a.s., President of the Supervisory Board
- Czech Aerospace industries sro, legal representative
- Central Europe Industry Partners a.s., sole member of the Supervisory Board

László Urbán, Ph.D.
Member of the Supervisory Board
Term of office: 2016-2020

Education:

- Completed Advanced Management Program, Harvard Business School, Cambridge, MA (2000)
- Doctorate at Budapest University of Economics, Hungary (1985)

- Master of Arts, Budapest University of Economics, Hungary (1982)

Career:

- Adjunct Professor at Central European University Business School (2012-2017)
- Member of the Supervisory Board at EBRD (2010-2011)
- CFO and Member of the Board of Directors at OTP Bank (2007-2009)
- Director, General Secretariat at National Bank of Hungary (2005-2006)
- Vice President, Business Planning Director at Citigroup, New York (2000-2005)
- Deputy CEO and member of the Board of Directors at Postabank, Hungary (1998-2000)
- Director of Planning and Chief Economist at ABN-AMRO Bank, Hungary (1996-1998)

Other important functions and achievements:

- Visiting Fellow, Economist at The World Bank, Washington DC (1995-1996)
- Member of Parliament, Hungary (1993-1994)
- Associate Professor at Eotvos University of Budapest (1985-1992)

Membership in the NLB Supervisory Board committees:

- Risk Committee (Deputy Chairman)
- Remuneration Committee (Member)

Membership in management bodies of related or unrelated companies:

- none

Vida Šeme Hočevar, Ph.D.
Member of the Supervisory Board
Term of office: 2017-2021

(note of resignation with a three-month notice submitted on 30 November 2018 expired on 28 February 2019)

Education:

- Doctor of Juridical Science - Faculty of Law, University of Maribor (2006)
- Master of Laws - Faculty of Law, University of Ljubljana (1996)
- Bachelor of Laws - Faculty of Law, University of Ljubljana (1991)

Career:

- Member of the Board - Skupna pokojninska družba d.d., Ljubljana (since December 2018)
- Authorised Officer of the Board - Skupna pokojninska družba d.d., Ljubljana (2017-2018)
- Secretary General/Executive Director - BoS, Ljubljana (2006-2017)
- Undersecretary, Member of the Management - Office for Money Laundering Prevention, Ministry of Finance, Ljubljana (2004-2006)
- A13 - TA Officer, Consulting Counsel - IMF, Washington D.C., US (2003-2004)
- Counsellor to the Government, Head of Prevention and Supervision Dept. - Office for Money Laundering Prevention, Ministry of Finance, Ljubljana (1997-2003)
- Counsellor to the Minister - Ministry of Finance, Ljubljana - Tax Department - International Issues (1995-1997)
- Senior Adviser - Ministry of Finance, Ljubljana - International Relations Department (1993-1995)
- Acting Head of the Cabinet - Ministry of Finance, Ljubljana (1992-1993)
- Lawyer - Entrepreneurship Innovation Centre, Ljubljana (1991-1992)

Other important positions and achievements:

- member of the Slovenian Insurance Agency, Key Functions Committee (since 2017)
- work and cooperation with IMF, WB, OECD, FATF, EBRD, EIB, ECB, UNO
- member of the EGMONT Group (1997-2006)
- member and evaluator of the CoE MONEYVAL Committee (1997-2006)
- in 1994 attended Postgraduate Trimester Individual Course on Legal Issues (part of LLM studies), British Council - Chevening Scholarship - Faculty of Law, University of Cambridge, United Kingdom (Gonville and Caius College; Jesus College)

Membership in the NLB Supervisory Board committees:

- Remuneration Committee (Chairwoman)
- Nomination Committee (Member)
- Audit Committee (Member)

Membership in management bodies of related or unrelated companies:

- As above (Management Board member in Skupna pokojninska družba d.d., Ljubljana)

Simona Kozjek, MSc
Member of the Supervisory Board
Term of office: 2017-2021

(note of resignation with a three-month notice submitted on 30 November 2018 expired on 28 February 2019)

Education:

- Master of Science - Faculty of Economics, University of Ljubljana (2007)
- Graduated from the Faculty of Economics, University of Ljubljana (1999)

Career:

- President of the Management Board - Nama d. d. (2017 to date)
- Director of Middle Office - Zavarovalnica Triglav d. d. (2013-2017)
- Analyst and Asset Manager - Zavarovalnica Triglav d. d. (2000 -2013)

Other important positions and achievements:

- In 2014 became Certified Business Appraiser at the Slovenian Institute of Auditors
- President of Supervisory Board of Avrigo, d.o.o. (2009-2012)
- Member of Supervisory Board of Triglav naložbe, finančna družba d.d. (2009-2013)
- Member of Supervisory Board of Triglav Skladi, družba za upravljanje, d.o.o. (2013-2017)
- Member of Supervisory Board of Nama d.d. (2014-2017)

Membership in the NLB Supervisory Board committees:

- Remuneration Committee (Deputy Chairwoman)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies in the past:

- Member of Supervisory Board of Hit, d.d. (since December 2018)

Peter Groznik, Ph.D.
Member of the Supervisory Board
Term of office: 2017-2021

Education:

- Doctor of Science - Kelley School of Business, Indiana University Bloomington, US (2003)
- Master of Business Sciences - Kelley School of Business, Indiana University Bloomington, US (2001)
- Bachelor of Economics, Finance - Faculty of Economics, University of Ljubljana (1996)

Career:

- Owner and Director - NorthGrant, svetovanje d.o.o., Ljubljana (since 2017)
- Member of the Management Board - Gorenje d.d. (2012-2017)
- Owner and Director - NorthGrant, svetovanje d.o.o., Ljubljana (2010-2012)
- President of the Management Board - KD Skladi d.o.o., Ljubljana (2009-2010)
- Director of Investment Department - KD, NPD by 2008, KD Skladi and KD Holding from 2008 to 2009 (2005-2009)

Membership in the NLB Supervisory Board committees:

- Nomination Committee (Member)
- Risk Committee (Member)

Membership in management bodies of related or unrelated companies:

- none

Committees of the Bank's Supervisory Board

The Supervisory Board appoints committees that prepare proposals for resolutions passed by the Supervisory Board, ensures their implementation, and performs other expert tasks. At the end of 2017 the Bank's Supervisory Board had four operational committees.

The Audit Committee

The Audit Committee monitors and prepares draft resolutions for the Supervisory Board on accounting reporting, internal control and risk management, internal audit, compliance, and external audit, and as well monitors the implementation of regulatory measures.

Throughout 2018 the composition of the committee was as follows: David E. Simon (Chairman), Alexander Bayr (Deputy Chairman), Primož Karpe, and Vida Šeme Hočevar (members). There were five regular sessions and two correspondence sessions of the Audit Committee. The following is a summary of key topics considered by the Audit Committee:

- Annual plan of the Internal Audit and Compliance
- Regular quarterly reports on the operations of the Group, Internal Audit's report, report on the work of the Compliance and Integrity for 2018
- Report on the documents received from BoS and ECB and the report on the implementation of the requirements of the BoS and ECB
- Approval of the Annual Report of the NLB Group, and Corporate Social Responsibility Report for 2017
- Information about the effects of the transition to IFRS 9
- Cooperating with the external auditor in auditing the Group's annual report, in particular by means of exchanging briefings on major audit-related issues

The Risk Committee

The Risk Committee monitors and drafts resolutions for the Supervisory Board in all risk areas relevant to the Group's operations. It addresses the current and future overall risk appetite and the risk management strategy, namely to support monitoring the implementation of the Group's strategy. Their ongoing monitoring and discussion enables an appropriate balancing between excepted level of assumed risks and the Bank performance targets. The duties of Committee include also the review and where required given recommendations on the Group's risk governance and related risk culture, the internal control framework referring to risk management and compliance, including changes in the regulatory framework.

Throughout 2018 the composition of the committee was as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chairman), Simona Kozjek, Peter Groznik, and David E. Simon (members). There were five sessions of the Risk Committee in 2018.

The Risk Committee reviews and gives recommendations to the senior management regarding implementation of the risk appetite statement, the risk management strategy and the related risk profile of the Group, focusing on credit, operational, liquidity, interest rate risk and other relevant risks. In this respect regular quarterly risk reports of the Group are provided to the Committee, including review of the mitigation measures when needed to apply.

Moreover, the following key topics were considered, discussed and approved by the Risk Committee:

- Risk Appetite Statement, defining the aggregate level and types of risk the Group is willing to accept or avoid to achieve its business objectives.
- Risk Strategy, determining the substantive risk principles for the relevant risk types, related segments or types of operations of the Group.
- ICAAP and ILAAP, in accordance with new ECB Guide, enabling to maintain adequate capitalisation, sufficient liquidity position, active and efficient risk management on on-going basis, even under potential stressed circumstances.
- Recovery Plan where the Group comprehensively assess the ability to restore its financial viability under several possible severe scenarios, by defining the indicators, the procedures and the measures which ensure that management realises threats to the financial stability in a timely manner.
- NLB Group Non-performing Exposure and Confiscated Assets Management Strategy for the 2018–2022 period, with precisely set mid-term objectives according to different segments and anticipated results of single measures, to further support NPL reduction. Moreover, in relation to NPL Strategy measures and write-offs to certain clients were discussed and approved by the Committee.
- Pillar III disclosures where risk governance and internal control framework of the Group are disclosed in accordance with EBA Guidelines.
- Regular review of the Group's largest and most important group of clients, monitoring whether conditions in the clients business are in line with the bank's business model, risk principles and targeted risk profile.

- Proposal for the issuance of prior consent of the Supervisory Board in accordance with the first paragraph of article 164 of ZBan-2 to the conclusion of legal transaction or transactions upon occurrence of which the total exposure, including indirect credit exposure, of up to 10% of Bank's capital.

The Risk Committee supported the Compensation Committee in assessing whether the compensation systems are aligned to the Group's business strategy focused on the institution's sustainable development.

The Nomination Committee

The Nomination Committee drafts proposed resolutions for the Supervisory Board concerning the appointment and dismissal of the Management Board members; recommends candidates for Supervisory Board members to the General Meeting of Shareholders; recommends to the Supervisory Board the dismissal of members of the Management Board and the Supervisory Board; prepares the content of executive employment contracts for the President and members of the Management Board; evaluates the performance of the Management Board and the Supervisory Board; and assesses the knowledge, skills, and experience of individual members of the Management Board and Supervisory Board, and the bodies as a whole. The Committee proposes amendments to the Management Board's policy on the selection and appointment of suitable candidates for senior management positions in the Bank.

Throughout 2018 the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Alexander Bayr, Vida Šeme Hočevar, and Peter Groznik (members). There were four sessions of the Nomination committee in 2018.

The following is a summary of key topics considered by the Nomination Committee:

- Assessment of collective suitability of members of the Supervisory Board

- Aspects of independence of Supervisory Board members in line with new EC commitments

- Information about the resignation of the members of the Supervisory Board of NLB.

The Remuneration Committee

The Remuneration Committee carries out expert and independent assessments of the remuneration policies and practices, and formulate initiatives for measures related to improving the management of the Bank's risks, capital, and liquidity; prepares proposals for remuneration-related decisions of the Supervisory Board; and supervises the remuneration of senior management performing the risk management and compliance functions.

Throughout 2018 the composition of the committee was as follows: Vida Šeme Hočevar (Chairwoman), Simona Kozjek (Deputy Chairwoman), Primož Karpe, and László Urbán (members). There were three sessions of the Remuneration Committee in 2018.

The following is a summary of key topics considered by the Remuneration Committee:

- Amendments to the Policy of Remuneration for the Employees Performing Special Work

- Realisation of the goals of Management Board of NLB for 2017 and goals of Management Board of NLB for 2018.

Management Board of the Bank

The Management Board of the Bank leads, represents, and acts on behalf of the Bank, independently and at its own discretion, as provided for by the law and the Bank's Articles of Association. The decisions within the scope of powers of the Management Board are adopted by members of the Management Board of the Bank as a rule unanimously or, failing that, unless otherwise provided in the Articles of Association, with a majority of votes cast. In the case of a tie, the President of the Management Board of the Bank has the decisive vote.

In accordance with the Articles of Association, the Management Board may have three to six members (a president and up to five members). The President and members of the Management Board of the Bank are appointed by the Supervisory Board for a five-year term of office and may be reappointed or dismissed early in accordance with the law and the Articles of Association. The selection is not based only on the legal conditions, but also the internal acts and the recommended national and European good practice guidelines. Every member has to fit the professional profile prepared before the selection procedure.

In 2018, the Management Board of the Bank consisted of Blaž Brodnjak, member since 1 December 2012, Deputy President since 5 February 2016, and president/CEO since 6 July 2016; and members Archibald Kremser, acting as CFO since 31 July 2013; Andreas Burkhardt acting as CRO since 18 September 2013; and László Pelle acting as COO since 26 October 2016. The 5-year term of office of the President of the Management Board Blaž Brodnjak and the members of the Management Board Archibald Kremser and Andreas Burkhardt expire on 6 July 2021, and of the Management Board member László Pelle on 26 October 2021.

In 2018, the Management Board, with the support of the Bank's internal project team and external legal advisors, actively worked to complete the first phase of the sales process of the Bank, run under the leadership of SSH. On 26 October 2018, the SSH and NLB published a prospectus for offering of the shares and GDRs to the public in the RoS, and admission to trading on the Ljubljana and on the London stock exchanges. In October and November the NLB Management Board, the representatives of SSH, and the syndicates of banks held a significant number of meetings with the potential investors. On 14 November 2018, NLB's ordinary shares were admitted to trading on the Prime Market sub-segment of the Ljubljana Stock Exchange. At the same time, GDRs representing NLB's ordinary shares were admitted to listing on the London Stock Exchange. This completed the first phase of privatisation of NLB and fulfilled the commitment by the EC as amended in August 2018 in that respect.

Through the year, the Management Board devoted considerable efforts to digitalisation, streamlining and modernisation of processes and services of the Bank and thus enabled that the entire Group gave to technological development and digitalisation new opportunities for future growth.

Further information about the work and powers of the Management Board is set out in the section "Corporate Governance Statement of NLB".

Blaž Brodnjak

President & CEO

Term of office: 2016-2021

Education:

- MBA, IEDC Bled School of Management (2009)
- Faculty of Economics, University of Ljubljana (1998)

Career:

- President, CEO, and CMO of NLB (July 2016-), Deputy President of the Management Board (2016), Member of the Management Board (2012-2016) in NLB
- Head of Group Corporate and Public Finance Division in the Hypo Alpe Adria Group in Klagenfurt (2010-2012)
- Proxy of the Management Board of Zavarovalnica Triglav (2009-2010)
- Member of the Management Board of Bawag banka (2005-2009)
- Head of Corporate Banking at Raiffeisen Krekova banka (2004-2005)

Other important functions and achievements:

- Was a chairman or member of the supervisory boards of 11 banking, three insurance, and one production company

Direct responsibility:

- Strategy and Business Development
- Legal and Secretariat
- Communication
- HR and Organisation Development
- Group Steering
- Retail and Private Banking and Corporate Banking

Membership in management or supervisory bodies of related or unrelated companies:

- Chairman of the Supervisory Board:
  NLB Banka, Sarajevo
  NLB Banka, Banja Luka
  NLB Banka, Skopje
- Member of the Supervisory Board:
  NLB Vita, Ljubljana
- President of the Supervisory Board:
  Association of Banks in Slovenia

Andreas Burkhardt

Member of the Management Board

Term of office: 2016-2021

Education:

- MBA, University of Dayton (1999)
- University of Augsburg, School of Business Administration and Economics, graduation ("Diplom-Kaufmann") (1998)

Career:

- CRO of NLB (2013-)
- Head of risk management at Volksbank in Hungary, involved in the upgrade and rationalisation of collection and company restructuring procedures (until January 2013)
- Member of the Management Board of Volksbank, Romania, in charge of finance, restructuring, and collection (2010-2011)
- Member of the Management Board of Volksbank BiH in Sarajevo, in charge of the financial part of operations and risks (2003-2009)
- Since 2000 he has occupied other functions in the aforementioned bank

Other important functions and achievements:

- 17 years of experience in the area of banking, especially in the area of Central Europe

Direct responsibility:

- Internal Audit
- Compliance and Integrity
- Risk (CRO)
- Workout
- Restructuring

Membership in management or supervisory bodies of related or unrelated companies:

- Chairman of the Board of Directors: NLB Banka, Prishtina
- Member of the Supervisory Board:
  NLB Banka, Sarajevo
  NLB Banka, Banja Luka

Archibald Kremser

Member of the Management Board

Term of office: 2016-2021

Education:

- MBA (INSEAD, France), specialising in bank management and corporate finance (2004)
- MSc Engineering, University of Technology in Vienna (1997)

Career:

- CFO of NLB (2013-)
- Eight years in various senior management functions/directorships within Dexia/Kommunalkredit Group (previously owned by Dexia SA and Volksbanken Austria AG)
  - Supervised the establishment and operation of subsidiaries of Dexia Kommunalkredit Bank in CEE with total assets of approximately EUR 10 billion (2005–2008)
  - Leading efforts to restructure Kommunalkredit Group with establishment of a "bad-bank" and winding-down/divestment of non-core assets and businesses (2008–2011)
  - Leading efforts to reposition Kommunalkredit Austria as an advisory-based specialised infrastructure bank in preparation for its subsequent privatisation (2011-2013)
- Worked in leading international consulting firms Ernst & Young/ Cap Gemini (1997-2004), Bain & Company (2004-2005), leading strategic transformation projects in IT/Operations and performance improvement for various international financial institutions in Austria, Germany, Switzerland, and the entire CEE

Other important functions and achievements:

- More than 19 years of experience in the financial services industry in Austria, CEE, and SEE focusing on finance and asset management, strategy, and corporate development, as well as performance improvement assignments

Direct responsibility:

- Financial Accounting
- Controlling
- Financial Markets
- Investment Banking and Custody
- Group Real Estate Asset Management

Membership in management or supervisory bodies of related or unrelated companies:

- Chairman of the Board of Directors:
  NLB Banka, Belgrade
  NLB Banka, Podgorica

László Pelle

Member of the Management Board

Term of office: 2016-2021

Education and training:

- Master's degree in electrical engineering at the Budapest University of Technology (1991)
- Bachelor's degree in electrical engineering, Kandó Kálmán College of Electrical Engineering in Budapest (1988)

Career:

- COO of NLB (2016-)
- COO, responsible for IT, operations, premises, and procurement services in ERSTE Bank Zrt., Hungary (2009-2015)
- COO, HSBC CEE (PL, CZ, SK, HU), responsible for regional operations of HSBC Premier in CEE. Roll-out of regional platform for OneBank IT and Operations. HSBC CEE, Czech Republic (2007-2009)
- Operations and Technology Director, Corporate and Consumer Bank, responsible for the management of overall operations, IT processes, and client services. Started Citi Shared Service Centre in Budapest in Citibank Rt, Budapest, Hungary (2002-2007)
- Operations and Technology Director, Consumer Bank, responsible for operations and technology. Set-up of the initial banking infrastructure for credit cards and consumer banking in Citibank Handlowy Warszawie, Poland (1997-2002)
- Regional Business Planning and Analysis Manager for Card Products, heading the business planning and analysis function (Pacific & CEEMEA countries) in Citibank N.A. Asia Pacific CEEMEA Regional Office, Singapore (1996-1997)
- Card Operations Manager, Systems Development and Application Support, start-up the retail bank and card product platforms (Diners Club) in Citibank Budapest Rt, Global Consumer Bank, Hungary (1994-1996)
- Head of Card Department, Project leader of VISA implementation, initiated VISA card programme in Hungary. Rolled-out ATM and POS networks in branches of Postabank and Savings Bank Corporation, Hungary (1992-1994)

Other important functions and achievements:

- 24 years of experience in the management of banking operations and IT in various countries of Central and SEE

Direct responsibility:

- Innovation and Business Analysis
- Procurement and Corporate Real Estate Management
- Development of Information System, Data Management, IT infrastructure
- Payments Processing
- Cash Processing
- Treasury and Financial Markets Processing
- Corporate Banking Processing
- Retail Banking Processing

Membership in management or supervisory bodies of related or unrelated companies:

- Chairman of the Supervisory Board: Bankart d.o.o., Ljubljana

Further information about the work and powers of the Management Board is set out in the section “Corporate Governance Statement”.

Collective decision-making bodies

Different committees, commissions, boards, and working bodies may be appointed by the Management Board of the Bank for execution of individual tasks within powers of the Management Board of the Bank.

The Corporate Credit Committee
The Corporate Credit Committee determines credit ratings and makes decisions on the reclassification of clients, and approves commercial banking investment transactions and limits that are beyond the competencies of the Credit Sub Committee. The Committee adopts decisions that are outside of the powers of the directors or subcommittee, as well as decisions on investment transactions in commercial banking within the statutory powers in the areas of corporate banking in the Bank (all companies, banks, and financial institutions), operations with clients in intensive care and NPL, and operations with non-core clients.

As a rule, Committee meetings are convened once a week. The Committee has seven members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

The Corporate Credit Subcommittee
The Corporate Credit Subcommittee determines credit ratings and makes decisions on the reclassification of clients and approves commercial banking investment transactions and limits that exceed the competences of B-1 level directors. The Subcommittee adopts decisions in the scope of the Bank’s investment policy and business plan, as well as statutory powers. The Subcommittee meetings are convened once a week. The Subcommittee has four members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO). The mentioned Subcommittee was abolished from 1 March 2019.

The NLB Group Assets and Liabilities Committee
NLB Group Assets and Liabilities Committee monitors conditions in the macroeconomic environment and analyses the balance, changes to, and trends in the assets and liabilities of NLB and the Group companies, drafts resolutions, and issues guidelines for achieving the structure of the Bank’s and the Group’s balance sheet. As a rule, Committee meetings are convened once a month. The Committee has four members. The Chairman of the Committee is the member of the Management Board responsible for the area of finance (CFO).

The Group Real Estate Asset Management Committee
The Group Real Estate Asset Management Committee is in charge of giving opinions on the acquisition/purchase price of real property and additional investments in real property provided as collateral for NPL, the selling price of own real property, and the acquisition/purchase price for the real property mortgaged in the sale of receivables. As a rule, Committee meetings are convened once a week. The Committee has three members. The Chairman of the Committee is the member of the Management Board responsible for the area of finance (CFO).

The Change the Bank Committee
The Change the Bank Committee is responsible for adopting decisions related to the development projects with the aim of transforming the Bank and decisions related to adopting the development guidelines. The Committee has four members. As a rule, the Committee meetings are convened once a month. The Chairman of the Committee is the President of the Management Board (CEO).

The Development Council
The Development Council adopts decisions related to the portfolio of development with an IT element. As a rule, the meetings of the Committee are convened once a month. The Committee has six members. The Chairman is the member of the Management Board responsible for the area of operations (COO).

The Sales Board
The Sales Board adopts decisions on the management of the range of products and services, and the relationships with clients in the area of sales. As a rule, Committee meetings are convened once a week. The Committee has 10 members. The Chairman of the Board is the member of the Management Board in charge of Retail and Private Banking and Corporate Banking (CMO).

The NLB Operational Risk Committee
The NLB Operational Risk Committee is responsible for monitoring, guiding, and supervising operational risk management in the Bank, and for transferring this methodology to the Group members. As a rule, the Committee meets once every two months. The Committee has 15 members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

The NLB Retail Credit Committee

The NLB Retail Credit Committee decides on the approval of loans and other investment proposals, the conditions of which deviate from standard banking products and services, and which represent additional risks for the Bank. As a rule, meetings are convened when necessary. The Committee has five members. The Chairman of the Committee is the Director of Credit Risk – Corporate and Retail.

Advisory bodies of the Bank's Management Board

The Watch List Committee

The Watch List Committee is an advisory body which acknowledges the activities related to the clients on the Watch List. As a rule, Committee meetings are convened quarterly. The Committee has seven members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

The Risk Committee

The Risk Committee monitors and periodically reviews matters related to risk and commercial risk, and prepares materials for the Management Board to make decisions. The Committee has 12 members. The Chairman of the Committee is the member of the Management Board responsible for the area of risk (CRO).

The Management Board appointed working bodies that operate at a lower level:

- The Committee for New and Existing Products
- The Group Real Estate Asset Management Sub Committee
- The Anti-Money Laundering Commission

Chapter 16

Compliance and Integrity

The Bank constantly builds, strengthens, and supports the culture of business compliance and due diligence within the Bank and the Group. The Group addresses the challenges of high regulation and strict regulatory requirements with a systematic approach to mitigating compliance risks. It is important to ensure that employees and decision-makers know and understand the purpose and objectives of the regulations. Systematic monitoring of the legal and regulatory environment and assessment of its impact on the Bank is thus an important part of its daily business. The Group is continuously strengthening the compliance function and diligence of its operations. Compliance policies within the Group are based on the framework of internationally recognised standards of compliance management. A key element of the Group's long-term success is to follow reasonably set rules and values. Compliance in NLB is integrated into the day-to day business of the Bank to support its operations, to contribute to its strong internal control environment, and to ensure that compliance risks are mitigated.

Regime on inside information (MAR)

In line with the Financial Instruments Market Act (ZTFI-1), MAR, and other relevant regulations, the Bank has a system in place on the level of the Bank and its entire Group for managing and publicly disclosing inside information in a manner that enables it to comply with the obligations related to inside information identification and disclosure in accordance with the rules and regulations applicable at any time.

Due to the listing of Bank's financial instruments on the London and Ljubljana Stock Exchanges, Compliance and Integrity has strengthened the market abuse prevention regime in accordance with MAR. Rules and procedures of the Bank were changed to ensure that good practices are in place. Inter alia, a groupwide insiders list was created together with the process of timely updates.

Other changes due to listing of shares and GDRs on Ljubljana and London Stock Exchange

Certain additional requirements are arising as a result of the fact that the Bank's shares are listed on the Prime Market of the Ljubljana Stock Exchange, such as financial reporting in accordance with IFRS, publication of information in English, publication of quarterly statements, publication of a statement of compliance with the Slovenian Corporate Governance Code for Public Companies and publication of a financial calendar. These rules were already observed beforehand. The fact that the GDRs are admitted to listing on the Official List of the FCA to trading on the Main Market for listed securities of the London Stock Exchange gives rise to the application of provisions of the FCA's Listing Rules (LR) and Disclosure Guidance and Transparency Rules (DTR) relating to the method of publication of regulated information which apply to issuers of securities listed in the UK regardless of their home member state.

Related to the rules on transparency, the requirements in relation to the disclosure of periodic and ongoing information about issuers whose securities are admitted to trading on a regulated market situated or operating within the EU (i.e. Public Companies) are set out in the Directive 2004/109/EC (the Transparency Directive) and the national legislation implementing the Transparency Directive. The Bank is required to observe primarily provisions of Slovenian law relating to the disclosure of periodic and ongoing information by the Bank, as well as those transparency rules in the UK that apply to the GDRs that are listed on the London Stock Exchange.

Managing regulatory compliance risks

The Bank faced complex processes of adaptation to the new regulatory environment and complex requirements in the field of personal data protection (GDPR), payment services (PSD2), the market of financial instruments (MiFID II, MiFIR), and new listing requirements, following the listing of the Bank's financial instruments on the London and Ljubljana Stock Exchanges. All the aforementioned regulatory changes needed to be implemented in the bank's business operations, as well as internal processes, and the compliance function supported and coordinated these processes to ensure timely implementation.

Within the Group the constantly changing regulatory environment required several implementation activities as well. To ensure the good flow of information and addressing matters, the Compliance function reports to the Management Board and the Supervisory Board of the Bank. The Compliance functions of Group core members also provide quarterly reports to the Compliance and Integrity of the Bank, as well as to their Boards. Managers and other employees were also informed in a timely manner about issues of regulatory compliance via regular monthly compliance and integrity e-newsletters which also include relevant information for raising awareness about ethics and integrity.

Preventing Money Laundering and Terrorism Financing

The Bank complies with national regulations on Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF), including the Guidelines of the BoS. The RoS is a member of EU, and thus is subject to the standards of the Financial Action Task Force (FATF) and the European legislation based on them. For the Group it is of paramount importance to effectively mitigate the risk of money laundering and terrorism financing. This is why rules, procedures, and technology in the area of AML/CTF are the subject of strict and unified policies/standards. The same approach is applied for sanctions and embargo screening. Headquarters are exercising constant onsite and off-site monitoring of the implementation and execution of standards throughout the Group.

The Bank has observed an increased number of clients with AML/CTF indicators. Pursuant to AML/CTF legislation, all of them were duly reported to competent national authority and business relationships were terminated where criteria was met. The Bank has adopted additional measures to prevent the onboarding of clients with new types of AML/CTF indicators. In 2018 the Bank added additional FTEs to AML/CTF team.

Information security and personal data protection

The information security area inter alia focused on upgrading the Bank's Security Operations Centre to the level of the Group member banks, to ensure group-wide activities are operationally in place 24/7, through close cooperation of IT experts within the Group. Furthermore, in line with the plan, several internal assessments/compliance checks were made on the basis of ISO 27001, including related to external providers (i.e. personal data processors and external software providers). This year, the testing of awareness was also conducted related to social engineering, as part of prevention measures in this area.

Further, to ensure timely compliance with the GDPR and further evolution of the personal data protection area, the Bank ran several implementation activities to ensure that its business and personal data protection system in place are aligned with the GDPR requirements. The alignment with GDPR was, in the Bank's view, an important milestone for upgrading the protection of the rights of individuals regarding the protection of their personal data. In line with the GDPR; the Bank upgraded the necessary forms and templates, as well as procedures and internal acts to ensure that all measures necessary were put in place, in line with the new requirements. Within the Group, the Bank observed the progress made in this area in terms of transposition of this piece of EU legislation, and member banks are, as in other areas, ensuring that obligations are met at all times. If necessary, further alignments will be made where national legislation regulating further rules set under the GDPR (i.e. The Slovenian Personal Data Protection Act; ZVOP-2) will be adopted, which is expected for the first half of 2019.

118

more than 100 regulatory changes relevant for the Bank were identified and monitored in 2018. Moreover, 61 of them are directly applicable and required immediate regulatory compliance implementation

1,959.5

more than 1,900 hours were dedicated to advising on compliance issues by the Compliance and Integrity in NLB

24

more than 20 different types of trainings for various focus groups were organised in 2018 on different compliance and integrity topics in the Bank

Prevention

A reassessment of compliance risks (so called ECRA) was carried out at the Group level, following the methodology which the Bank prepared already in 2016 after conducting this process in 2017. The assessment allows the Group to reduce the compliance and integrity risks with already prepared risk-mitigation measures. As part of compliance programme, Compliance and Integrity is also involved, inter alia, in risk assessments regarding new and changed products, fit and proper assessments for key function holders, and are assessing risks related to outsourcing and vendors.

The Compliance function prepared several workshops and compulsory e-education on ethics, the prevention of corruption, conflicts of interest, protection of personal data, Money Laundering and Terrorist Financing Prevention (MLTFP) and other relevant topics related to everyday work. For all employees, yearly e-trainings are mandatory on subjects such as ethics, anti-corruption, mitigation of conflict of interests, personal data protection, information security, and similar themes. Special workshops and target group trainings (also e-trainings) were organised as part of implementation of GDPR-related requirements. Such trainings have also been made part of the compliance and integrity programme standards for the Group's core subsidiaries. The Group seeks to promote a corporate culture that facilitates compliance, and by continuously raising awareness, for example through communication via its monthly compliance newsletter, detailing not only important regulatory changes, but also current information and case studies on different compliance and ethics topics. The Group also devotes a great deal of emphasis to preventing harmful conduct and incidents in the Bank. In 2018, employees at all levels received information and training about the prevention of harmful conduct, procedures, and whistleblowing channels.

The Group also continued with the implementation of the Whistler, a special IT tool for whistleblowers, whereas the process of internal investigations is in place and functioning. The Bank's staff is obliged to take part in yearly Compliance training and education.

Particular attention is paid to advising employees who have dilemmas regarding compliance issues. Compliance and Integrity dedicated more than 1,960 hours for advisory activities, which is again a signifant increase compared to 1,300 advisory hours in 2017.

Group-wide ethics and integrity standards

Within the framework of the program of ensuring business compliance, the Group also deals with the ethics and integrity of the organisation. Such a program encourages employees and other stakeholders to conduct business, which is consistent with a strong positive organisational culture. The values of the Group, embedded in the Group Code of Conduct, provide guidance and principles of behaviour regarding ethical conduct and require appropriate conduct from all employees at any level of the organisation, including contractors.

The Compliance and Integrity in the Bank addresses the following risk areas: fraud prevention and investigation; AML/CTF; privacy data protection and information security; focal points for regulators (ECB, BoS); regulatory compliance; corruption prevention; conflict of interests, gifts and hospitality management; fit and proper assessment procedures (as part of assessing reputation, financial strength, time availability, and conflict of interests); identification, assessment and management of compliance, and integrity risks at the Bank and the Group levels; oversight, monitoring, steering, and managing the Group compliance function and programme (established by standards for compliance and integrity for the Group and implementation of monitoring by off-site data analysis and onsite visits); and business ethics and corporate integrity.

Chapter 17

Internal Audit

Internal Audit reviews key risks in the Group's operations, advises management at all levels, and deepens understanding of the Bank's operations. It provides independent and impartial assurance regarding the management of key risks, management of the Bank, operation of internal controls, and thereby strengthens and protects the value of the Bank.

Internal Audit is the independent, objective, and advisory control body responsible for a systematic and professional assessment of the effectiveness of risk management procedures, completeness, and functionality of internal control systems, and the management of the Group operations on an ongoing basis. In 2018 Internal Audit provided impartial assurance to the Management Board and Supervisory Board on the management of risks in key areas i.e. cyber security, data management, GDPR, vault operation, cash management, IT Governance and IT projects, provisioning, NPL management, credit process and other.

Performed audits

Internal Audit performs its tasks and responsibilities on its own discretion and in compliance with the annual audit plan as approved by the Management Board and confirmed by the Supervisory Board. Based on its internal methodology and comprehensive risk analysis for 2018 Internal Audit in NLB intended to perform 46 audits, out of which 43 were conducted and three were postponed due to objective reasons. Furthermore, six extraordinary audits were conducted. Most of the recommendations given in 2018 were implemented within the agreed deadlines.

Implementation of uniform rules

Internal Audit increases efficiency. It focuses on monitoring the implementation of audit recommendations, training and education, updating the internal audit charter and manual, advising management, and ensuring high quality and professional operations of the internal audit function within the Group. Internal Audit also introduces uniform rules of operation of internal audit function and regularly monitors the compliance with these rules within the Group.

The highest standards were followed

Internal Audit and other internal audit services in the Group operate in accordance with the:

- International Standards for the Professional Practice of Internal Auditing
- Banking Act or other relevant laws which regulate the operations of a Group member
- Code of Ethics of an Internal Auditor
- Code of Internal Auditing Principles.

19,122
hours spent in audits

860
hours spent on consulting

24
Internal Audit experts

49
planned and extraordinary audits conducted

Chapter 18

Human Resources

HR drive improvements and innovative practices to enable the best possible employee engagement and strong business results. The Group sees investments in its employees as a key change enabler. Acting as a strategic partner to the business, HR has been focusing on the need for an organisational and cultural development. In 2018 focus was mainly on top talents, lean processes, social learning activities, and implementation of practices to enhance employee efficiency. The Group beliefs that investments in its employees are crucial for the successful introduction of change.

On a path toward more efficient organisation

In the past few years, the Group made substantial progress in improving its HR management function by introducing a system for: performance management, promotional schemes, remuneration schemes, an organisational culture and an active talent management programme, while all employees benefit from relevant and regular trainings. Change of organisational culture remained the top HR priority, and innovative practices are constantly being implemented. The Group also decided to form a common leadership brand, with carefully defined leadership behaviours needed to drive business change in the future.

In recent years the Group undertook efforts to gradually optimise and right-size its staffing level aligned with the current organisational structure. In the last five years the Group reduced the number of employees by 14.8% (1,026 employees, 735 in the Bank alone) and concluded several major reorganisations. With this comprehensive HR strategy, the Group's business needs were profoundly analysed and workforce planning schemes formed. Accordingly, competency development plans and talent career plans were formed throughout the Group, aiming to support future business needs.

To continue with upgrading HR processes and improving qualitative analytics, a new IT tool was introduced in the Bank, supporting crucial HR processes (core HR data, performance management, recruiting, learning and development, talent management, and career development). In the upcoming years the same IT tool will be integrated throughout the Group.

Proud to be recognised as an attractive employer

The Group was recognised for its HR practises as an attractive employer from several reputable international and local institutes. The Bank was awarded the Top Employer certification process already for the 4th consecutive year, as well as "Family-Friendly Company", Prishtina was locally awarded Employer of the Year, and Sarajevo was recognised among the Best Employers on the national level. The Group will further develop its HR practice based on feedback from different certification processes and strive to reach the best in class level.

Continuing a longstanding tradition of investing in employees

Investments in development and training of employees contribute to a great extent to the organisational culture, and assists in establishing best business practices following the Group's strategy. It empowers employees to achieve the Group's business goals, to act socially responsibly towards stakeholders, and enables them to achieve their own ambitions and personal development. Special emphasis is on leadership, sales, employee coaching, mentoring, and peer groups in combination with e-learning. In 2018 the Group developed and used systematic employees training programmes to encourage and motivate employees by developing relevant job specific skills and competencies. The Bank's Training Centre has been operating for nearly 45 years.

Table 26: NLB Group employees by countries

Country	Number of employees (as at 31 December 2018)
Slovenia*	2,786 (NLB: 2,690, other: 96)
Serbia	471
BiH (Republic of Srpska, Federation of BiH)	939
Montenegro	308
Macedonia	893
Kosovo	476
Germany	1
Switzerland	4
Croatia	9
Total (the Group)	**5,887**

* without Bankart, Prvi Faktor, NLB Vita.

160,180
hours of education in 2018

280
talents in developmental programme 2018

5,887
employees in the Group in 2018

Intensive talent development for future challenges

Within the Group, the talent development programme systematically supports career development of recognised potentials of employees. In 2018, development frameworks were formed to enhance employees' leadership and other relevant professional skills and competences. Educational activities were a combination of workshops and various training programmes covering the most up-to-date contents.

Remuneration system as a motivation for engaged and committed employees

For an employee working in the companies within the Group the salary is composed of a fixed and a variable part. The fixed part of the salary is determined according to the complexity of the work for which the employee has concluded a contract of employment, while the variable amount depends on the employee's performance. Apart from monthly compensation, the employees are awarded with annual rewards related to the business performance of the bank in which they work. Performance assessment is done by the head of the employee's organisational unit using a top-down approach to evaluate the employee's achievements in relation to goals set for a particular assessment period (quarter or half-year). The goals are set according to the "SMART" method, meaning that they have to be specific, measurable, achievable, relevant, and time-bounded.

Positive trend of organisational climate and employee engagement

The Group regularly conducts organisational climate and employee engagement surveys to assess the motivation and satisfaction levels of its employees. The 2018 survey showed a continuation of positive trends in all banks. To further work on improvements, several initiatives were identified and action plans developed to address specific elements of engagement.

Chapter 19

Corporate Governance Statements

Statement of Management's Responsibility

The Management Board hereby confirms the statements made in the business report, which are in accordance with the attached financial statements as at 31 December 2018, and represent the actual and fair financial standing of the Bank and the Group, as well as their operating results in the year that ended 31 December 2018.

The Management Board confirms that the business report includes a fair view of the developments and operating results of the Bank and the Group and their financial standings. The report also includes a description of the key types of risks, and the companies under consolidation are exposed as a whole.

Management Board of the NLB

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

A. Burkhardt

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

Types of Services for which NLB Holds Authorisation

In accordance with the provisions of Article 14 of the Regulation on Books of Accounts and Annual Reports of Banks and Savings Banks (Official Gazette of the RS, No. 69/17) adopted by the Bank of Slovenia on the basis of the authorization from Article 93 of the Banking Act (Official Gazette of the RS, no. 25/15 and subsequent amendments, hereinafter ZBan-2), NLB d.d. hereby lists all types of financial services which, in accordance with the authorization of the Bank of Slovenia, took place during the period for which the business report was prepared.

NLB d.d. has an authorisation to perform banking services pursuant to Article 5 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 25/15, with Amendments; hereinafter: the ZBan-2). Banking services are the acceptance of deposits and other repayable funds from the public and the granting of credits for its own account.

The bank has an authorisation to perform mutually recognised and additional financial services.

It may perform the following mutually recognised financial services, pursuant to Article 5 of the ZBan-2, namely:

1. accepting deposits and other repayable funds from the public
2. granting of loans, including:
   - consumer loans
   - mortgage loans
   - purchase of receivables with or without recourse (factoring)
   - financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting)
3. payment services
4. issuing and managing other payment instruments (e.g. travellers cheques and bank bills of exchange), insofar as such services are not included in the services referred to in the previous point
5. issuing of guarantees and other sureties
6. trading for own account or for the account of clients:
   - in money-market instruments
   - in foreign legal tender, including currency exchange transactions
   - in standardised futures and options
   - in currency and interest-rate instruments
   - in transferable securities
7. participation in securities issues and the provision of associated services
8. corporate consultancy with regard to capital structure, operational strategy and related matters, and consultancy and services in connection with corporate mergers and acquisitions
9. monetary intermediation on interbank markets
10. advice on portfolio management
11. safekeeping of securities and other related services
12. credit rating services: collecting, analysing and disseminating information regarding creditworthiness
13. leasing of safe deposit boxes
14. investment services and transactions, and ancillary investment services in accordance with the Financial Instruments Market Act (ZTFI).

It may perform the following additional financial services, pursuant to Article 6 of the ZBan-2:

1. brokerage in the sale of insurance policies pursuant to the law governing the insurance industry
2. custodian services according to the law governing investment funds and management companies
3. credit brokerage for consumer and other loans.

Authorisation to perform banking services is published on the official web page of the Bank of Slovenia

(https://www.bsi.si/en/financial-stability/institutions-under-supervision/banks-in-slovenia/8/nova-ljubljanska-banka-dd-ljubljana).

Corporate Governance Statement of NLB

Pursuant to the fifth paragraph of Article 70 of the ZGD-1[23] NLB hereby gives the following Corporate Governance Statement as a part of the Business Report of the NLB Group Annual Report 2018.

1. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Information contained in this point represents a "Statement of Compliance with the Corporate Governance Code" as defined in the Ljubljana Stock Exchange Rules (Articles 25 and 26).

1.1. REFERENCES TO THE CODES, THE RECOMMENDATIONS AND OTHER INTERNAL REGULATIONS ON CORPORATE GOVERNANCE

Corporate governance of the Bank is based on applicable legislation of the Republic of Slovenia (further in text: RoS), particularly the provisions of the Companies Act (ZGD-1) and the Banking Act (ZBan-2), Decision on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the RoS, nr. 81/18) and the EBA Guidelines on Internal Governance (EBA/GL/2017/11; 21 March 2018). Apart from binding legal framework NLB d.d. (further in text: NLB or the Bank) also follows corporate governance code(s) which represent a supplement to legal provisions and are used as best practice recommendations at home and abroad.

23. The Companies Law (ZGD- 1; Official Gazette of the RS ,No. 65/09 - official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 - decision of the Constitutional Court, 82/13, 55/15 and 15/17).

In 2018, NLB abided by the following recommended standards in conduct of its business activities, namely:

- Corporate Governance Code for Listed Companies (currently applicable code was adopted on 27 October 2016 and came in force on 1 January 2017; the code is published on the Ljubljana Stock Exchange's website http://www.ljse.si)

- Corporate Governance Code for Companies with a State Capital Investment (adopted in May 2017; is available on the website http://www.sdh.si) – until 14 November 2018

- Recommendations and Expectations of the SSH (adopted on March 2018, available on the website http://www.sdh.si) - until 14 November 2018.

In further developing a transparent, clear, and successful corporate governance system, during 2018 NLB endeavored, as far as practicable, to comply with the regulatory provisions and the highest standards of responsible and refined corporate governance system as laid down by the Corporate Governance Code for Listed Companies, thus further increasing the confidence of investors, customers, creditors, and employees of the Bank.

In addition, NLB also complied with the Corporate Governance Code for Companies with a State Capital Investment as the RoS held a majority equity investment in the Bank (until 14 November 2018). The purpose of the code is to determine the standards of governance and supervision in state-owned companies and ensure that such companies develop transparent and comprehensive corporate governance system, with the objective of ensuring the successful and long-term growth of their assets.

Because a majority of shares of the Bank was sold in the first phase of the privatization, of the bank and that on 14 November 2018, NLB's shares were listed on Ljubljana Stock Exchange and the global depositary receipts representing NLB's ordinary shares were listed on London Stock Exchange, NLB became a listed company. As of 14 November 2018, NLB will abide by the Corporate Governance Code for Listed Companies only (Slovenian Directors' Association and Ljubljana Stock Exchange, adopted 27 October 2016, valid from 1 January 2017). The Code is available on the web site: www.ljse.si.

Furthermore, NLB complied in its governance system with the commitments made by the RoS to the EC with respect to the state aid given to NLB in December 2013, in part relating to corporate governance. Mentioned commitments were changed with the Amendment of the restructuring decision of NLB on May 2017 and with the Amendment of the restructuring commitments of NLB on 10 August 2018 (public versions of mentioned decisions available on:

- http://ec.europa.eu/competition/state_aid/cases/269184/269184_1911771_145_2.pdf and

- https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.298.01.0017.01.ENG&toc=OJ:L:2018:298:TOC).

The Corporate Governance Policy of the NLB Group regulates corporate governance of the NLB Group. In subsidiaries of the Group, the principles and recommendations of both mentioned codes are followed through the Corporate Governance Policy of the NLB Group (minimum standards by particular business area), also respecting the local legislation and regulatory requirements as well as the principle of proportionality (e.g. the organizational possibilities in the companies).

According to ZGD-1 (Article 70, para 5) the Bank discloses its compliance with mentioned codes based on the "comply or explain" principle. The statement refers to the Bank's system of corporate governance from the beginning to the end of financial year, which also corresponds to the beginning and the end of the calendar year (January until December 2018).

The Bank publishes this statement as a separate report on its website (https://www.nlb.si/nlb/nlb-portal/eng/investor-relations). The Corporate Governance system of the Bank and all relevant information on Bank's management that exceeds the requirements of this act are published in the Corporate Governance Policy of NLB d.d. and other documents that are communicated to the stakeholders by being published on the NLB website (http://www.nlb.si/corporate-governance).

1.2. THE CORPORATE GOVERNANCE OF NLB DEVIATES FROM THE FOLLOWING RECOMMENDATIONS:

Particular deviations from the aforementioned codes and recommendations, and the underlying reasoning for them are disclosed below.

A) Corporate Governance Code for Listed Companies

Recommendation no. 4.3: Current Policy on the Provision of Diversity of the Supervisory Board was adopted by the General Meeting on 4 August 2016. Mentioned policy does not set out the ways of implementation of set objectives, as well as the effects on the human resources procedures and other processes of the company. However, changes of the policy are in the process of adoption at appropriate managing bodies. The revised version of the policy will include provisions on diversity for the Supervisory Board, the Management Board and key personnel of the Bank. With changes to the policy measurable goals for diversity will be set according to experience, age, gender and international experience.

Recommendation no. 8.5: In the reasoning of the proposals for the General Meeting, NLB does not cite the past membership in other management or control bodies, nor eventual conflicts of interest (because they are already included into Fit & Proper procedure).

Recommendation no. 8.7: Restriction regarding remuneration of the Management Board members of the fifth paragraph of the Act Regulating the Incomes of Managers of Companies owned by the RoS and its Municipalities (ZPPOGD) ceased to apply from 14 November 2018. The remuneration of Management Board members has also been subject to restriction arising from Decision of the EC on State Aid dated 18 December 2013 and the amendment of the restructuring decision dated 11 May 2017. With the Amendment of the restructuring commitments of NLB on 10 August 2018, that restriction no longer applies. Regardless of the above restrictions regarding remuneration were still in place throughout 2018. This did not provide remuneration to the Management Board members that would correspond to their responsibilities and the fines set by the ZBan-2. However, activities are carried out in the Bank with the aim of eliminating inconsistencies.

Recommendation no. 8.9: In 2018, the representatives of the external auditor were not invited on the General Meeting that acknowledges itself with the financial statements.

Recommendation no. 10.1: In assessing candidate's eligibility for a Supervisory Board member, statutory criteria are applied, however candidates don't have a certificate evidencing their specialized professional competence for membership on a Supervisory Board, such as the Certificate of the Slovenian Directors' Association, or any other relevant certificate.

Recommendation no. 12.2: The Rules of Procedure of the Supervisory Board to NLB do not include the list of all types of transactions for which the Management Board needs prior approval of the Supervisory Board; as well as the system of outsourcing for purposes of the Supervisory Board and the Supervisory Board evaluation, education and training of the members of the Supervisory Board. The mentioned provisions are part of other internal documents or decisions of the governing bodies.

Recommendation no. 12.3: The Rules of Procedure of the Supervisory Board of NLB do not include the scope of topics and timeframes to be respected by the Management Board in its periodic reporting of the Supervisory Board. However, scope of topics and time frames of periodic reporting to the Supervisory Board are included in annual Action Plan of the Supervisory Board and also Articles of Association. Professional services of the bank take care that timely information is provided to the Supervisory Board.

Recommendation no. 12.5: Material for regular sessions of the Supervisory Board is not provided through information technology but in hard copy. However, in the near future the Bank intends to start using electronic channels.

Recommendation no. 12.11: The Supervisory Board's Report presented to the General Meeting did not include the information to what extent the Supervisory Board's self-assessment has contributed to the improvement of Supervisory Board's performance. Self-assessment was performed at the end of 2018. Results of self-evaluation will be included in the

Supervisory Board's Report presented to the annual General Meeting in 2019.

Recommendation no. 15.3: NLB deviates from this recommendation because the President of the Supervisory Board is at the same time President of the Nominations Committee.

Recommendation no. 16.2: The Secretary of the Supervisory Board did not sign a separate statement in which she makes a commitment to protect the confidentiality of information on the same level as the members of the Supervisory Board. She has provisions on confidentiality included in her employment contract and is obliged to protect the confidentiality of information by ZBan-2 and Labor Law.

Recommendation no. 17: In our opinion, the Bank is not providing payment to the Supervisory Board members that would correspond to their responsibilities and the fines set by the ZBan-2.

Recommendation no. 20.1: Drafting a proposal on the Management Board Succession Plan in 2018 was not necessary; however, the Supervisory Board will discuss/adopt a Management Board Succession Plan on session in March 2019.

Recommendations no. 21 and 21.1. After first phase of privatization of the NLB was completed on 14 November 2018, restriction regarding remuneration of the Management Board members of the fifth paragraph of the Act Regulating the Incomes of Managers of Companies owned by the RoS and its Municipalities (ZPPOGD) ceased to apply. That restriction posed a severe impediment to the winning over, and retaining of suitable staff. However, restrictions provided by the ZBan-2 still apply (article 170) with regard to remuneration amount (sum, variable bonus/fixed salary, ratio, etc.). Regardless of the above restrictions on remuneration were still in place throughout 2018. This did not provide remuneration to the Management Board members that would correspond to their responsibilities and the fines set by the ZBan-2. However, activities are carried out in the Bank with the aim of eliminating inconsistencies.

Recommendations no. 21.4 to 21.6: In 2018, the Bank did not provide for variable remuneration in the form of shares, nor do stock option plans and comparable financial instruments make up the majority of the variable remuneration of any member of the NLB Management Board. However, there are incentives for implementation of part of the variable remuneration being paid in other forms as stated in previous sentence. NLB complies with the Guidelines of the Bank of Slovenia (further in text: BoS) dated 22 November 2016 concerning the application of the principle of proportionality in the implementation of remuneration policies. However, activities are carried out in the Bank with the aim of eliminating inconsistencies.

Recommendation no. 25.3: The Bank deviates from the recommendation on rotation of audit companies. In 2018, the Bank followed provisions of ZBan-2 and the Recommendations and the Expectations of SSH regarding the rotation of audit companies, which define a longer rotation period (which is 10 years).

Recommendation no. 27.4: NLB draws up its financial calendar which is published on banks' website, however it doesn't provide information on the expected dates of General Meetings, announcements of the record date for dividend payments, or the dividend payment date.

Recommendation 29.3: the Bank does not have a program of acquisition of own shares yet. The Bank's managing bodies will discuss about adoption of mentioned program in 2019.

Recommendation no. 29.7: NLB discloses the remuneration of each member of the Management Board and of the Supervisory Board broken down to all items that are contained in the Appendices C.3 and C.4 of Corporate Governance Code for Listed Companies (except for Appendix C.3 of Corporate Governance Code for Listed Companies, where NLB does not disclose the gross variable income of the members of the Management Board on the basis of quantity and quality criteria, but only as a total).

Recommendation no. 29.9: NLB does not publish the rules of procedure of its bodies (Management Board and Supervisory Board and the General Meeting) on its website.

B) Corporate Governance Code for Companies with a State Capital Investment

Recommendation no. 6.3.1: As a system-relevant bank, NLB has adapted the reporting of the Supervisory Board to the complex applicable legislation, also taking into account the Recommendations of the Slovenian's Directors' Association for reporting to the supervisory boards.

Recommendation no. 6.6: In statements of independence for the last composition of the Supervisory Board (elected on 8 September 2017), all members of the Supervisory Board NLB declared themselves independent. Eventual conflict of interest for members of the Supervisory Board does not exist anymore, because one member of the Supervisory Board, who was a member of the Board of Directors in a Serbian bank, his function ceased and the other two members, whose eventual conflict of interest could arise according to European Commitments, offered their resignations. Potential conflict of interest was managed accordingly.

Recommendation no. 7.2.1: NLB complies with the Recommendations for Reporting to Supervisory Boards (Slovenian Directors' Association, 25 October 2011 and 10 March 2014) with some deviations from certain recommendations.

Recommendation no. 8.3: In 2018, in the NLB Group Annual Report, NLB disclosed the receipts and other rights of the members of the Supervisory Board in accordance with Appendix C to the Corporate Governance Code for Listed Companies (as attached to this statement). When disclosing the income of the members of the Management Board, the gross variable income is not disclosed based on quantity and quality criteria, but only as a total. The remunerations of the members of the Group are not published in the NLB Group's Annual Report.

Recommendation no. 8.5: NLB publishes the financial calendar on its public website that includes the publication of annual unaudited financial statements, the publication of the annual and semi-annual reports and two interim reports. The Financial Calendar does not include the dates of the General Meetings and the dates of dividend payment. The financial calendar is published on https://www.nlb.si/financial-calendar.

Recommendation no. 9.2.7: As a rule, recommendations are being implemented in line with set deadlines. The Management Board and the Supervisory Board monitor the status of audit recommendations and the reasons for late implementation quarterly.

Recommendation no. 9.3.1: In 2018, the SSH was informed of the risks and all open issues and proposals for their elimination via regular meetings of the Management Boards, within legally allowed boundaries.

C) Recommendations and Expectations of the SSH

NLB also takes a position on the adopted Recommendations and Expectations of the SSH, as follows:

Recommendation no. 1.1: In 2018, NLB met the expectations of this recommendation in due time, taking into account the applicable legislation and staying in line with the planning process of the Group, which is based on the last possible available data on the operations of NLB and the Group. NLB submitted a draft plan of all necessary indicators of a company/group in accordance with the agreement with the SSH, as well as in line with the timetable of SSH regarding the framework of their expectations.

Recommendation no. 1.2: In 2018, NLB met expectations in this recommendation in due time, taking into account the applicable legislation. In line with the agreement and the guidelines of SSH, NLB submitted a draft plan of indicators of a company/group in accordance with the applicable Criteria for measuring performance of companies with the state capital investment.

Recommendation no. 1.3: In 2018, NLB met expectations in this recommendation in due time, taking into account the applicable legislation.

Recommendation no. 3.7: The Bank does not disclose once a year the value of transactions concerning the service contracts.

Recommendation no. 4.4: A reporting system has been set up for the Group about the implemented payments from Recommendation 4.3.2 in the COGNOS system. Data on implemented payments was not published on the NLB intranet site.

Recommendation no. 4.5: The Bank does not publish the text of collective agreements on its website because the two applicable collective agreements are available on the website of the NLB Trade Union representing the Bank's employees. NLB does not publish the binding collective agreements or agreements with the workers' representatives for the subsidiaries.

Recommendations no. 5.1 to 5.4: Due to activity of refreshing the business and IT/digital strategy, the self-assessment using the recognized European excellence model was not yet carried out. With the aim of improving the quality, the new strategy introduces the new initiatives in the area of lean organization and processes. The Bank first started introducing process ownership and achievement of the KPI objectives in the sense of optimization and quality improvement and continued with Lean optimization.

There are dozens of projects in the bank; one of them is the introduction of E2E ownership of processes and the maturity pf processes. Based on the analysis, the project and phase 2 will be carried out based on i.e. "Lean process optimization". The first 5 to 7 processes will be selected, and later on, all of them will be renewed. We already renewed two processes, one is to be done in near future and we are introducing operational excellence project as well.

Recommendation no. 6.2: In 2018, the General Meetings have been convened in agreement with SSH.

Recommendation no. 6.3: In 2018, only the convocation is published on the Bank's website, while the reasoning of proposals were sent to the shareholder first by e-mail, and also by a courier. Such a specific method of informing the shareholder was possible because SSH used to be the sole shareholder.

Recommendation no. 6.4: If the sole shareholder had any questions, NLB did not publish them, but the management provided answers at the General Meeting.

2. MAIN FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING

NLB is governed by the provisions of the ZBan-2 and the Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks regulating, among other, the Bank's obligation to set up, maintain appropriate internal control, and risk management systems. Due to the above, the NLB has developed a steady and reliable internal governance system encompassing the following:

- a clear organizational structure with precisely defined, transparent and consistent internal relations in the area of responsibility
- effective risk management processes for identifying, measuring or assessing, managing and monitoring risks, including risk appetite, risk strategy, ICAAP, ILAAP, recovery plan and the reporting of risks to which the Group is exposed or could be exposed in its operations
- incorporating main strategic risk guidelines into annual business plan review, budgeting process and other relevant decision making
- suitable internal control mechanisms that include appropriate administrative and accounting procedures
- appropriate remuneration policies and practices that are in line with prudent and effective risk management, and thus promote risk management.

2.1. Internal control mechanisms

Suitability of the internal control mechanisms are determined by the independence, quality and validity of:

- the rules for and controls of the implementation of the bank's organizational procedures, business procedures and work procedures (internal controls) and
- the internal control functions and departments (internal control functions).

2.1.1 Internal Controls

Internal controls should put in place at all levels of the bank's organizational structure, especially the levels of commercial, control and support functions, and at the level of each of the bank's financial services. In daily operations, the bank follows the internal act System of Internal Controls, which sets the system of internal controls in NLB and responsibilities for its establishment, continuous performance and its upgrading. On the organizational level, the Bank established middle-offices and back offices.

In the event of deficiencies, irregularities of breaches identified in the process of implementation of internal controls the breaches are discussed at the Operational Risk Committee and appropriate actions are taken. In the events of intentional breaches of the bank's rules as defined by the NLB Group Code of Conduct, the events are handled according to Integrity and Compliance Policy of NLB and NLB Group.

2.1.2. Internal Control Functions

The internal control functions are part of the system of the internal governance in the Bank. Internal control functions include:

a) The Internal Audit Department

The Internal Audit function is organized according to the Charter on the Internal Audit of NLB adopted by the Management Board on 13 November 2018, in agreement with the Supervisory Board of NLB (30 November 2018).

The Charter of the Internal Audit of NLB is the umbrella document about the understanding and role of the Internal Audit in NLB, which defines the purpose, powers, responsibilities and tasks of the Internal Audit in line with the International Standards for the Professional Practice of Internal Auditing. The mentioned Charter lays down the position of the Internal Audit in the organization, including the nature of the relationship between the functional responsibility of the Head of the Internal Audit to the supervisory body, grants authorizations to internal auditors for accessing records, employees, premises and equipment relevant for performing their tasks, and defines the area and activities of the Internal Audit.

The Management Board has set up an independent internal audit function which gives assurances and advice about risk management, internal controls system and management of the NLB. The mission and the principal task of the Internal Audit is to consolidate and secure the value of the Bank by issuing objective assurances based on risk assessment, with consultancy and deep understanding of the Bank's operations. In addition to that, the Internal Audit carries out regular control of the quality of operation of the other internal audit departments in the NLB Group and takes care of constant development of the internal auditing function.

Pursuant to the provisions of the law, the Bank has organized the internal audit as an independent organizational unit, primary responsible to the Supervisory Board of the NLB and secondary to the Management Board of the Bank.

The Supervisory Board of NLB must issue its approval of the appointment, remuneration and dismissal of the Director of the Internal Audit, which ensures their independence and thus the independence of the work of the Internal Audit.

b) The Risk Management Function

The Risk Management Function is organized according to the Charter of the Risk Management Function of NLB adopted by the Management Board on 6 November 2015, in agreement with the Supervisory Board of NLB. The Charter on Functioning of the Risk Management Function of NLB is the framework document on understanding and role of the risk management function; it defines the purpose, validity and method of operation as well as the authorizations and responsibilities of the risk management function according to the requirements of the ZBan-2 and the Regulation on Internal Management Arrangements, Management Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks.

The risk management function in NLB is organized within the Risk (CRO), covered by the member of the Management Board in charge of risk. Risk covers the following organizational units:

- Global Risk
- Corporate and Retail Credit Analysis Department
- Evaluation and Control
- Restructuring
- Non-Performing Loan Management Department
- Non-Strategic Corporate (as of 1 January 2016).

The risk management function is performed by the Global Risk, whereas the manager or head in charge of the risk management function is the Director of the Global Risk. The Global Risk is in functional and organizational terms separate from other functions where business decisions are adopted and where conflict of interest may arise with the risk management function. The head of the risk management function has direct access to the Management Board of the NLB and at the same time unhindered and independent access to the Supervisory Board of NLB and the Risk Committee of the Supervisory Board of the NLB. In accordance with the competences, authorizations and responsibilities of the Global Risk are represented by its Director.

In members of the NLB Group, the risk management function is organized according to the local legislation, taking into account the bases for set-up, organization and activities in the area of risk management in the members, as defined in the document "Risk Management Standards in the NLB Group". The described standards on risk management provide the members of the NLB Group the bases with which they have to align their internal policies, organization, work procedures, methodologies and reporting system.

The risk management function represents an important part of overall management and governance system in the Group. The Group gives high importance to the risk culture, and awareness of all relevant risks within the entire Group. The key goal of Risk Management is to manage, assess, and monitor risks within the Group in line with the Group's Risk Appetite and Risk Strategy, representing the foundation of Group's Risk management framework. A Robust Risk Management framework is comprehensively integrated into decision-making, steering and mitigation processes within the Group in order to proactively support its business operations.

Moreover, main strategic risk guidelines are integrated into annual business plan review and budgeting process. Nevertheless, the Group is constantly enhancing its risk management system, where consistent incorporation of the internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP), Recovery plan, and other internal stress-testing capabilities is essential.

NLB is, as a systemic bank, involved in the Single Supervision Mechanism (SSM), under the supervision of the ECB and its Joint Supervisory Team, and the BoS. Group-wide ECB and other relevant regulatory requirements are followed by all Group members, whereby the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. Across the Group, assessments are made and risks managed in the Group uniform manner, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's risk management standards.

The Group plans a prudent risk appetite and optimally profitable operations in the long run, including fulfillment of all the regulatory requirements. The key strategic risk documents and other risk policies of the Group are approved by the Management Board and the Supervisory Board of NLB. The Group regularly monitors its Target Risk Appetite profile, representing the key component of risk mitigation process. The Risk profile enables detailed monitoring and proactive management, where the limits usage and potential deviations are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. Additionally, the Group has set up early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary.

NLB pays special attention to the system of internal controls and risk management in the Group, and continuously upgrades the internal control system in the Group in line with the Corporate Governance Policy of the Group. Corporate governance of the Group is presented in the chapter NLB Corporate Governance, subchapter Corporate Governance of the Group. The risk profile of the Group in conjunction with the business strategy is presented under the Risk Management section in the financial report of the Annual Report.

c) The Compliance and Information Security Functions

The Bank adopted Integrity and Compliance Policy of the NLB and the NLB Group (Version 1, December 2016), which regulates the method and scope of the activities of the compliance function in the Bank. Supervision over compliance of operations is within the competence of the Compliance and Integrity.

Compliance and Integrity is an organization unit of the Bank, placed directly under the Bank's Management Board in the organizational structure. This enables the Compliance and Integrity to operate independently from other Bank's departments. The head of the Compliance and Integrity does not perform any other function at the Bank that could possibly lead to conflict of interests; its regular tasks include direct reporting to the member of the Bank's Management Board responsible for compliance, which additionally ensures independence of operation of the Compliance and Integrity; moreover, it has direct access and separate reporting line to the Bank's Supervisory Board. NLB has also introduced the compliance function in the core members of the NLB Group. Through specific binding standards in the area of compliance and integrity, it has also established a harmonized system of standards and practices in the area of compliance and integrity in the entire NLB Group, in core and non-core members.

2.2. Financial reporting

With the aim of ensuring appropriate financial reporting procedures, NLB pursues the adopted Policy on Accounting Controls. The accounting controls are provided through the operation of the complete accounting function with the purpose of ensuring quality and reliable accounting information, and thereby accurate and timely financial reporting. The principal identified risks in this area are managed with an appropriate system of authorizations, a segregation of duties, compliance with accounting rules, documenting of all business events, a custody system, posting on the day of a business event, in-built control mechanisms in source applications, and archiving pursuant to the laws and internal regulations. Furthermore, the policy precisely defines primary accounting controls, performed in the scope of analytical bookkeeping, and secondary accounting controls, i.e. checking the efficiency of implementation of primary accounting controls. With an efficient mechanism of controls in the area of accounting reporting, NLB ensures:

- A reliable decision-making and operation support system
- Accurate, complete, and timely accounting data, the resulting accounting, and other reports of the Bank
- Compliance with legal and other requirements.

3. INFORMATION ON POINT 4, PARAGRAPH 5, OF THE ARTICLE 70 OF THE ZGD-1 regarding points 3, 4, 6, 8, and 9 of the paragraph 6 of the same article

Explanation regarding significant direct and indirect ownership of the company's securities in the sense of achieving a qualified stake as determined by the act regulating acquisitions (Point 3 of the sixth paragraph of Article 70 of the ZGD-1)

As of 31 December 2018, NLB's share capital totaled EUR 200 million and was divided into 20 million no-par value shares. All shares belong to a single class and are issued in book-entry form. The RoS has been a 100% shareholder of NLB since 18 December 2013 until 13 November 2018.

Main Shareholder structure of NLB (as of 31 December 2018):

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders*	11,071,394	55.36
- of which Brandes Investment Partners, L.P.**	1,342,035	6.71
- of which EBRD**	1,250,000	6.25
RoS	7,000,000	35.00
OTP banka d.d. - client account	550,000	2.75
Addiko Bank d.d. - Pension fund 1 - fiduciary account	267,500	1.34
Other shareholders	1,111,106	5.55
Total	20,000,000	100.00

* The Bank of New York Mellon holds shares in its capacity as the depositary for the GDR holders and is not beneficial owner of such shares.
** The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

More information on the Bank's Share Capital available on website: https://www.nlb.si/shares.

Explanation regarding the holders of securities that carry special control rights (Point 4 of the sixth paragraph of Article 70 of the ZGD-1)

No special controlling rights are attached to NLB shares.

Explanation regarding restrictions related to voting rights, in particular: (i) restrictions of voting rights to a certain stake or certain number of votes, (ii) deadlines for executing voting rights, and (iii) agreements in which, based on the company's cooperation, the financial rights arising from securities are separated from the rights of ownership of such securities (Point 6 of the sixth paragraph of Article 70 of the ZGD-1)

In accordance with Article 5.a) of the NLB's Articles of Association (dated 12 October 2018), any transfer of the Bank's shares with which the acquirer together with the shares held prior to such an acquisition and the shares held by third parties on behalf of such acquirer exceeds 25% of the voting shares, shall require the Bank's authorization. The authorization to transfer the shares shall be granted by the Supervisory Board.

The Bank may refuse to grant authorization to transfer shares, if the acquirer together with its shares held prior to the acquisition and the shares held by third parties on behalf of such an acquirer exceeds 25% of the Bank's voting shares plus one share.

Notwithstanding the provision above, the authorization to transfer shares shall not be required if the acquirer acquires the shares on behalf of third parties, and as such it is not authorized to exercise their voting rights at its own discretion, while committing to the Bank that it shall not exercise the voting rights attached to these shares as instructed by a relevant third party on behalf of which these shares are held, if the acquirer fails to receive from this party, together with instructions, a written undertaking stipulating that this party holds the shares for its own account and that at the same time it does not, directly or indirectly, hold more than 25% of the Bank's voting shares.

Without having applied for authorization to transfer shares, or without having received the Bank's authorization, the acquirer that exceeds 25% of the Bank's voting shares shall be able to exercise the voting rights of 25% of its voting shares.

Explanation regarding the (i) company's rules on appointment or replacement of members of the management of supervisory bodies, and (ii) changes to company's Articles of Association (Point 8 of the sixth paragraph of Article 70 of the ZGD-1)

Management Board
In accordance with NLB's Articles of Association, the Supervisory Board appoints and recalls the President and other members of the Management Board. The President of the Management Board may appoint one of the members of the Management Board as his/her Deputy subject to a prior approval of the Supervisory Board.

The President and other members of the Management Board of the Bank shall be appointed for a period of five years, and may be re-appointed for another term of office.

The President and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and NLB's Articles of Association.

Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months.

Supervisory Board
The Supervisory Board members are elected by the Shareholders' Meeting for a period of four years, in accordance with NLB's Articles of Association. The Supervisory Board of the Bank shall, at its first meeting after the appointment, elect from among its members a Chair and at least one Deputy Chair of the Supervisory Board of the Bank.

Membership of the Supervisory Board members shall be terminated after the expiry of their terms of office or based on a resolution on removal adopted by the Shareholders Meeting. Supervisory Board members may resign at any time with a period of notice of three months.

Changes to the company's Articles of Association
In accordance with provisions of the ZGD-1 and Article 18 of the NLB's Articles of Association, a qualified majority of at least 75% of the votes cast by shareholders is required for adoption and any amendments to the Bank's Articles of Association.

Explanation regarding the authorization of the members of the management, particularly authorizations to issue or purchase own shares (Point 9 of the sixth paragraph of Article 70 of the ZGD-1)

According to the ZGD-1, authorization by the General Meeting for the purchase of Bank's own shares has not been adopted.

4. INFORMATION ON THE WORK AND KEY POWERS OF THE SHAREHOLDERS' MEETING AND OF ITS KEY POWERS, AND A DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE METHOD OF THEIR EXERCISING

Competences of the Bank's General Meeting are stipulated in the ZGD-1, ZBan-2 and the Articles of Association of the Bank. The General Meeting is a body of the Bank through which shareholders exercise their rights, which include among others: decisions on corporate changes (amendments of the Articles of Association, increase or decrease of share capital) and legal restructuring (mergers, acquisitions), adopt decisions on all statutory issues in respect of appointing and discharging members of the Supervisory Board and appointment of an auditor, distribution decisions (appropriation of distributable profit), granting of discharge from liability to the Management and Supervisory Board.

The General Meeting is convened by the Management Board. The General Meeting may be convened by the Supervisory Board, in particular in cases where the Management Board fails to convene the General Meeting, or where when a convocation is necessary to ensure unhindered operations of the Bank. The Supervisory Board may amend the agenda of the General Meeting convened in line with the bylaws.

As a rule, the General Meeting of the Bank shall be convened at the registered office of the Bank, yet it may also be convened at another venue specified by the convenor. The Shareholders' Meeting shall adopt resolutions by simple majority of the votes cast, unless the applicable laws or the Bank's Articles of Association stipulate a larger majority or other conditions.

The shareholders have the right to participate at the general meeting of the Bank, the voting right, pre-emptive right to subscribe for new shares in case of share capital increase, the right to profit participation (dividends) and the right to a share in surplus in the event of liquidation or bankruptcy of the Bank and the right to be informed.

5. INFORMATION ABOUT THE COMPOSITION AND WORK OF THE MANAGEMENT AND SUPERVISORY BODY AND ITS COMMITTEES

A detailed description of the composition of the Management and Supervisory Bodies and their committees is in Appendices C.1 and C.2 of the Corporate Governance Code for Listed Companies as attachment to this statement.

5.1. The Management Board
The Management Board is the decision-making and representation body of the Bank. It manages the company, makes business decisions autonomously and independently, adopts the development strategy, ensures sound and effective risk management, acts with the highest professional integrity, protects business secrets and is held accountable for the legality of the Bank's operations within the limits set by the relevant regulations.

In 2018, the Management Board of the Bank consisted of Blaž Brodnjak, member since 1 December 2012, Deputy President since 5 February 2016, and president/CEO since 6 July 2016; and members Archibald Kremser, acting as CFO since 31 July 2013; Andreas Burkhardt acting as CRO since 18 September 2013; and László Pelle acting as COO since 26 October 2016. The 5-year term of office of the President of the Management Board Blaž Brodnjak and the members of the Management Board Archibald Kremser and Andreas Burkhardt, expire on 6 July 2021, and of the Management Board member László Pelle on 26 October 2021.

In accordance with the Articles of Association of the NLB, the Management Board consists of three to six members, one of whom is appointed President of the Management Board of the Bank.

The President and members of the Management Board of the Bank shall be appointed for a period of five years and may be re-appointed for another term of office. The president and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and Articles of Association. Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months.

A member of the Bank's Management Board may only be a person who fulfils the legally prescribed conditions for a Management Board member under the law on banking, and who has obtained a license from the BoS or the ECB, in accordance with Articles of Association.

In 2018, the Management Board with a support of the Bank's internal project team and external legal advisors actively worked to complete the first phase of the sales process of the Bank, run under the leadership of SSH. On 14 November 2018, the first phase of privatization of NLB was completed. Through the year, the Management Board devoted considerable efforts to digitalization, streamlining and modernization of processes and services of the Bank and thus enabled that the entire NLB Group gave to technological development and digitalization new opportunities for future growth.

More detailed provisions on the method of work of the Management Board are set out by the Rules of procedure governing the work of the Management Board adopted by the Supervisory Board of the Bank.

5.2. The Supervisory Board

The Supervisory Board shall perform its tasks in accordance with the provisions of the applicable legislation governing the operations of banks and companies, the Bank's Articles of Association, and its Rules of Procedure of the Supervisory Board of NLB. The Supervisory Board may engage legal and other consultants and institutions required by itself or its committees to perform their tasks.

Throughout 2018 the Supervisory Board was composed of eight members, namely: Primož Karpe - Chairman, Andreas Klingen - Deputy Chairman, and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek and Peter Groznik. On 30 November 2018, the Supervisory Board took note of resignation statements of Simona Kozjek and Vida Šeme Hočevar with a three-month notice that expired on 28 February 2019.

In accordance with the two-tier governance system and the authorisations for supervising the Management Board, the Banks' Supervisory Board issues approvals to the Management Board related to the Banks' business policy and financial plan, approves the strategy of the Bank and the Group, the internal control system organization, the Annual Plan of the Internal Audit and to financial transactions defined in Articles of Association. The Supervisory Board acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest.

In 2018, the Supervisory Board met at seven regular and four correspondence sessions. In addition to approvals mentioned above the Supervisory Board took the following decisions:

- Approved the materials for the Bank's General Meeting; Information on resignation of two members of the Supervisory Board; Proposal for the General Meeting on selection of the external auditor of the annual financial statements for the NLB and the NLB Group;
- Approved the NLB Group Annual Report for 2017 and the NLB Group Corporate Social Responsibility Report for 2017;
- Approved key decisions on risk management (ICAAP, ILAAP, Recovery Plan, risk strategy, risk appetite, NPLs wind-down strategy, etc.);
- Annual plan of the Internal Audit and Compliance and Integrity;
- Regular quarterly reports of the Audit, Compliance and Risk Function, etc.;
- Regular quarterly reports on State Aid – Status Reports; Reports on risks relating to the unfinished procedures before the EC regarding the State aid;
- Regular reports on documents received from the regulator(s);
- Decides on large exposures, sale of receivables, write-offs of claims and divestment of NLB Group companies.

5.3. The Supervisory Board Committees

All four Committees for the Supervisory Board function as consulting bodies of the Supervisory Board of NLB and discuss the material and proposals of Management Board of NLB for the Supervisory Board meetings related to a particular area.

All four Committees are composed of at least three members of the Supervisory Board. The Chair of the Committee may only be appointed from among the members of the Supervisory Board.

The Chair, Deputy Chair, and members of the Committee are appointed by a resolution of the Supervisory Board. The term of office of the Chair, the Deputy Chair, and the members of the Committee should not exceed their term of office as Supervisory Board members. The Supervisory Board may terminate the appointment of the chair, deputy chair, or a member of the Committee early without giving a reason.

5.3.1 The Audit Committee of the Supervisory Board of NLB

Throughout 2018 the composition of the committee was as follows: David E. Simon (Chairman), Alexander Bayr (Deputy Chairman), Primož Karpe, and Vida Šeme Hočevar (members). There were five regular sessions and two correspondence sessions of the Audit Committee. Composition of the Audit Committee in 2018 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (as attachment to this statement).

The Audit Committee monitors and prepares draft resolutions for the Supervisory Board on accounting reporting, internal control and risk management, internal audit, compliance and integrity, and external audit, and as well monitors the implementation of regulatory measures.

The Audit Committee's tasks are defined by law, the Bank's Articles of Association, Rules of Procedure of the Audit Committee of the Supervisory Board of NLB, resolutions of the Supervisory Board and other regulations, from which the Committee especially monitors and prepares proposals of resolutions for the Supervisory Board for the area:

- Accounting and financial reporting
- Internal control and risk management
- Internal audit
- Compliance of operations
- External audit.

Following is a summary of key topics considered by the Audit Committee:

- Annual plan of the Internal Audit and Compliance and Integrity
- Regular quarterly reports on the operations of the NLB Group, Internal Audit's report, report on the work of the Compliance and Integrity for 2018
- Report on the documents received from BoS and ECB and report on the implementation of the requirements of the BoS and ECB
- Approval of the Annual Report of the NLB Group, and Corporate Social Responsibility Report for 2017
- Information about the effects of the transition to IFRS 9
- Cooperating with the external auditor in auditing the Group's annual report, in particular by means of exchanging briefings on major audit-related issues.

5.3.2 The Risk Committee of the Supervisory Board of NLB

Throughout 2018 the composition of the committee was as follows: Andreas Klingen (Chairman), László Urbán (Deputy Chairman), Simona Kozjek, Peter Groznik, and David E. Simon (members). There were five sessions of the Risk Committee in 2018. Composition of the Risk Committee in 2018 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (as attachment to this statement).

The following is a summary of key topics considered by the Risk Committee:

- Regular quarterly risk reports in NLB and the NLB Group
- Recovery Plan
- NLB Group Non-performing Exposure and Confiscated Assets Management Strategy for the 2018–2022 period;
- ICAAP and ILAAP
- Approval the Risk Management Strategy of the NLB Group
- Proposal for the issuance of prior consent of the Supervisory Board of NLB in accordance with the first paragraph of article 164 of ZBan-2 to the conclusion of legal transaction or transactions upon occurrence of which the total exposure, including indirect credit exposure, of up to 10% of Bank's capital.

Responsibilities of the committee are defined in Rules of Procedure of the Risk Committee of the Supervisory Board of NLB.

5.3.3 The Nomination Committee of the Supervisory Board of NLB

Throughout 2018 the composition of the committee was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), Alexander Bayr, Vida Šeme Hočevar and Peter Groznik (members). Composition of the Nomination in 2018 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (as attachment to this statement).

The following is a summary of key topics considered by the Nomination Committee:

- Assessment of collective suitability of members of the Supervisory Board
- Aspects of independence of SB members in line with new EC commitments
- Information about the resignation of the members of the Supervisory Board of NLB.

Responsibilities of the committee are defined in Rules of Procedure of the Nomination Committee of the Supervisory Board of NLB.

5.3.4 The Remuneration Committee of the Supervisory Board of NLB

Throughout 2018 the composition of the committee was as follows: Vida Šeme Hočevar (Chairwoman), Simona Kozjek (Deputy Chairwoman), Primož Karpe, and László Urbán (members). There were three sessions of the Remuneration Committee in 2018. Composition of the Remuneration Committee in 2018 is described in detail in the Appendix C.2 of the Corporate Governance Code for Listed Companies (as attachment to this statement).

The following is a summary of key topics considered by the Remuneration Committee:

- Amendments to the Policy of Remuneration for the Employees Performing Special Work

- Realization of the goals of Management Board of NLB for 2017 and goals of Management Board of NLB for 2018.

Responsibilities of the committee concerning remuneration policies are defined by Rules of Procedure of the Remuneration Committee of the Supervisory Board of NLB.

6. DESCRIPTION OF DIVERSITY POLICY

6.1. Supervisory Board

Policy on the provision of diversity of the Supervisory Board was adopted on 27th General Meeting of Shareholders on 4 August 2016. By the mentioned policy, NLB acting in accordance with Article 34 of the ZBan-2, sets up a framework enabling and promoting a composition of the Supervisory Board of the Bank resulting in the latter having collectively the appropriate knowledge, skills, and experience deemed necessary for in-depth understanding of the Bank's activities and the risks to which it is exposed and for realizing the goals of its strategy.

To ensure the diversity of the supervisory board, in addition to all legal and statutory requirements, the members of the Supervisory Board must have appropriate experience, skills, knowledge and competences, including personal integrity and the ability to dedicate sufficient time to the performance of the function, so they can successfully supervise the operation of the Management Board and the operations of the Bank. Members of the supervisory board must have different skills and experience, to complement each other and must act in accordance with the goals, strategies and policies of the Bank in the best interest of the Bank.

In the composition of membership in the Supervisory Board of the Bank, it is also aim to ensure that both sexes are appropriately represented.

As described in the chapter Corporate Governance in the composition of the Supervisory Board in 2018 two members were females. However, on session of the Supervisory Board dated 30 November 2018 Vida Šeme Hočevar and Simona Kozjek submitted their resignation statements with a three-month notice.

6.2. Management Board

The policy for selecting suitable candidates for the member of the Bank's Management Board was adopted by the Supervisory Board of the NLB on 28 August 2015. Pursuant to the Article 34 of the ZBan-2, with the mentioned policy the Supervisory Board lays down the framework enabling that the Management Board of the Bank as a whole shall possess an appropriate range of knowledge, skills, and experience of its members.

The goal of above-mentioned policy is to ensure that the Bank's Management Board is composed of individuals having a balanced range of skills, knowledge, and experience who will possess appropriate qualifications as a team considering the size, complexity, and risk profile of the Bank. The Policy also promotes achieving variety in the composition of the Management Board, including an appropriate target representation of both genders in its membership.

No changes in the composition of the Management Board were made in 2018. On 31 December 2018 the Management Board of the Bank was composed of Blaž Brodnjak, President, CEO and CMO; Archibald Kremser, CFO; Andreas Burkhardt, CRO; and László Pelle, COO.

Current Policy on the Provision of Diversity of the Supervisory Board (adopted by the General Meeting on 4 August 2016) does not set out ways of implementation of set objectives, as well as the effects on the human resources procedures and other processes of the company. However, changes of the policy are in the process of adoption at appropriate managing bodies. The revised version of the policy will include provisions on diversity for the Supervisory Board, the Management Board and key personnel of the Bank. With changes to the policy measurable goals for diversity will be set according to experience, age, gender and international experience.

7. CORPORATE INTEGRITY

In accordance with the provisions of recommendation no. 3.4.1 of the Corporate Governance Code for Companies with a State Capital Investment, NLB included a description of the company's corporate integrity in the Corporate Governance Statement.

In 2018, execution of Compliance Program was additionally enhanced with new organizational structure of Compliance department to better reflect core activities of Compliance Program. Following that, four teams were established within Compliance and Integrity department: (i) Regulatory intelligence and prevention (regulatory intelligence, compliance monitoring, operations, education and training), (ii) Internal investigations, (iii) CISO and Data Protection Officer, (iv) Anti Money Laundering and Counter Terrorist Financing. Compliance team has been intensively involved in education, prevention, supervision and investigative activities in Headquarters and in the Group.

Since 2017, based on newly developed Enterprise Compliance Risk Assessment methodology, we yearly identify, assess and mitigate compliance and integrity risks within the NLB and the Group. Furthermore, Compliance standards as adopted by Headquarters and are obligatory for all members of NLB Group, implementation of standards is being constantly monitored by Headquarters.

In 2018, Compliance and Integrity team has executed live trainings or educations with more than 1,000 participants and video or e-learnings with more than 2,000 participants with the goal to enhance knowledge and fitness of employees and by that contribute to further raising of risk awareness within NLB and the Group.

We maintain an effective and agile capability to detect and react to fraudulent attempts or activities against our customers or the Bank with a zero tolerance approach.

Therefore, the NLB can identify itself with all statements in the preamble and can adopt the general commitment about the corporate integrity and zero tolerance to illegal and non-ethical conduct by appropriately handling the perceived violations, and taking the necessary measures.

This Corporate Governance Statement of the NLB is publicly available also on NLB's webpage: https://www.nlb.si/corporate-governance.

Ljubljana,12 April 2019

The Supervisory Board

Primož Karpe
Chairman of the
Supervisory Board

The Management Board

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

Table 27: Composition of Management in financial year 2018 (C.1)

Name and Surname	Position held (president, member)	Area of work covered within the Management Board	First appointment to the position
Blaž Brodnjak	President	CEO	6 July 2016
Andreas Burkhardt	Member	CRO	13 September 2013
Archibald Kremser	Member	CFO	31 July 2013
László Pelle	Member	COO	26 October 2016

Table 28: Table 28: Composition of Supervisory Board and Committees in financial year 2018 (C.2)

Name and Surname	Position held (president deputy, member)	First appointment to the position	Conclusion of the position/ term of office	Representative of the company's capital structure / employees,	Attendance at SB session in regard to the total number of SB session (for example 5/7) applicable on his/her mandate
Primož Karpe	President	10 February 2016	2020	No	7/7
Andreas Klingen	Deputy President	22 June 2015	2019	No	7/7
Alexander Bayr	Member	4 August 2016	2020	No	7/7
David E. Simon	Member	4 August 2016	2020	No	7/7
László Urban	Member	10 February 2016	2020	No	7/7
Vida Šeme Hočevar	Member	8 September 2017	2021	No	7/7
Simona Kozjek	Member	8 September 2017	2021	No	7/7
Peter Groznik	Member	8 September 2017	2021	No	7/7

Conclusion of the position /term of office	Citizenship	Year of birth	Qualification	Professional profile	Membership in supervisory bodies in companies not related to the company
5 July 2021	Slovene	1974	MBA	Banking / Finance	Banks' Association of Slovenia
5 July 2021	German	1971	MBA	Banking / Finance	
5 July 2021	Austrian	1971	MBA	Banking / Finance	
26 October 2021	Hungarian	1966	MSc	Banking Operations and IT Management	

Gender	Citizenship	Year of birth	Qualification	Professional profile	Independence under Article 23 of the Code (YES/NO)	Existence of conflict of interest, in the business year (YES/NO)	Membership in supervisory bodies in other companies or institutions
male	Slovene	1970	MSc	Banking / Finance	YES	NO	
male	German	1964	University Degree	Banking / Finance	YES	YES	Kyrgyz Investment and Credit Bank, Credit Bank of Moscow, Komercialna banka Beograd a.d. (until November 2018)
male	Austrian	1960	University Degree	Banking / Finance	YES	NO	WKBG Bank, Vienna
male	British	1948	Higer National Diploma in Business Studies	Banking / Finance	YES	NO	Jihlavan a.s., Central Europe Industry Partners a.s.
male	Hungarian	1959	PhD	Banking / Finance	YES	NO	
female	Slovene	1967	PhD	Finance/ Insurance	YES	YES	
female	Slovene	1975	MSc	Banking / Finance	YES	YES	Hit, d.d. (since December 2018)
male	Slovene	1971	PhD	Finance, industry, investment banking	YES	NO	

Name and Surname	Membership in committees (audit, nominal, income committee , etc.)	First appointment to the position	Conclusion of the position/ term of office	President / Member	Attendance at sessions of SB's Committees in regard to the total number of SB's session (applicable on his/her mandate)
Vida Šeme Hočevar	Remuneration Committee	06-Oct-17	2021	President	3/3
Simona Kozjek	Remuneration Committee	06-Oct-17	2021	Deputy President	3/3
Primož Karpe	Remuneration Committee	15-Apr-17	2020	Member	2/3
László Urban	Remuneration Committee	06-Oct-17	2020	Member	3/3
Primož Karpe	Nominaton Committee	15-Apr-16	2020	President	4/4
Andreas Klingen	Nominaton Committee	19-Feb-16	2019	Deputy President	4/4
Alexander Bayr	Nominaton Committee	06-Oct-17	2020	Member	4/4
Vida Šeme Hočevar	Nominaton Committee	06-Oct-17	2021	Member	4/4
Peter Groznik	Nominaton Committee	06-Oct-17	2021	Member	4/4
David E. Simon	Audit Committee	07-Apr-16	2020	President	5/5
Alexander Bayr	Audit Committee	26-Aug-16	2020	Deputy President	5/5
Primož Karpe	Audit Committee	19-Feb-16	2020	Member	5/5
Vida Šeme Hočevar	Audit Committee	06-Oct-17	2021	Member	5/5
Andreas Klingen	Risk Committee	19-Feb-16	2019	President	5/5
László Urban	Risk Committee	26-Aug-16	2020	Deputy President	5/5
Simona Kozjek	Risk Committee	06-Oct-17	2021	Member	5/5
Peter Groznik	Risk Committee	06-Oct-17	2021	Member	5/5
David E. Simon	Risk Committee	26-Aug-16	2020	Member	5/5

External member in committees (audit, nominal, income committee , etc.) - The Banking Act (ZBan-2) that came into effect on 13 May 2015 contains provision stipulating that, irrespective of provision of Companies Act (ZGD-1) only members of the Supervisory Board can be appointed to Supervisory committees.

Name and Surname	Attendance at sessions of SB's Committees in regard to the total number of SB's session (for example 5/7)	Gender	Qualification	Year of birth	Professional profile	Membership in supervisory bodies in companies not related to the company
none						

Table 29: Composition and amount of remuneration of the management board members in the financial year 2018 (C.3)

Name and Surname	Position held (president/ member)	Fixed income -gross (1)	Variable income - gross			Deferred income (3)	Severance pay (4)	Bonuses (5)	Draw-back (6)	Total gross (1+2+3+4+5-6)	Total net*
			on the basis of quantity criteria	on the basis of quality criteria	Total (2)						
Blaž Brodnjak	president	146,804.55			40,773.00	0.00	0.00	1,987.75	0.00	189,565.3	87,097.17
Archibald Kremser	member	146,804.55			40,773.00	0.00	0.00	19,555.77	0.00	207,133.32	77,131.36
Andreas Burkhardt	member	146,804.55			40,773.00	0.00	0.00	20,080.27	0.00	207,657.82	76,057.2
László Pelle	member	146,804.55			20,886.26	0.00	0.00	32,283.22	0.00	199,974.03	64,324.44

* This table does not include other benefits and cost refunds.

Table 30: Composition and amount of remuneration of members of the Supervisory Board and committee members in the financial year 2018 (in EUR) (C.4)

Name and Surname	Position held (president deputy,member, external member of a Committee)	Payment for the performance of services - gross per year (1)	Attendance fees for SB and committees - gross per year (2)	Total gross (1+2)	Total net*	Travel expenses
Primož Karpe	President	37,500.00	5,445.00	42,945.00	42,945.00	9,858.10
Andreas Klingen	Deputy President	27,750.00	4,565.00	32,315.00	21,287.41	11,702.39
László Urbán	Member	22,500.00	4,345.00	26,845.00	17,683.97	6,930.59
Alexander Bayr	Member	22,500.00	5,005.00	27,505.00	18,118.73	10,935.71
David Eric Simon	Member	26,250.00	5,225.00	31,475.00	20,734.09	16,205.86
Simona Kozjek	Member	22,500.00	4,345.00	26,845.00	19,524.46	0.00
Vida Šeme Hočevar	Member	30,000.00	5,665.00	35,665.00	25,939.24	266.18
Peter Groznik	Member	22,500.00	4,565.00	27,065.00	19,684.47	1,487.00

* After the prepayment of income taxes which is not taken into account in potential subsequent balacing payment of personal income taxes.

Statement of Management of Risk

NLB d.d.'s Management Board and Supervisory Board provide herewith a concise statement of the risk management according to Article 17 of the Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks (Official Gazette of the RS, no. 73/2015, 49/2016 68/17, 33/18 and 81/18) and Regulation (EU) 575/2013 (date of publication 21 December 2015), article 435 (Risk management objectives and policies), point (e) and (f), as well as EBA Guidelines in on Disclosure requirements (EBA GL/2016/11).

Risk management in NLB Group is implemented in accordance with the established internal policies and procedures which take into account the European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines and the relevant good banking practices. EU regulations are followed by all Group members, where the Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators. NLB 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's operations, is changing with trends such as changing customer behaviour, emerging new technologies and competitors, increasing new regulatory requirements. Consequently risk management is continuously adapting with aim to detect and manage new potential emerging risks.

Risk management function, acting as second line of defence, represents an important part of overall management and governance system in the Group. NLB Group Risk Management framework is defined and organized with regard to the Group's business and risk profile, based on forward looking perspective to meet internal objectives and all external requirements. Proactive Risk management and control system is based on Risk appetite and Risk strategy, which are consistent with the Group's Business strategy, and focused on early risk identification and efficient risk management. Set governance and different risk management tools enable adequate oversight of the Group's risk profile, proactively support its business operations and its management by incorporating escalation procedures and using different mitigation measures when necessary. Nevertheless, the Group is constantly enhancing and complementing the existing methods and processes in all risk management segments.

NLB Group plans prudent risk profile, optimal capital usage and profitable operations on the long run, considering the risks assumed. The Business strategy, the Risk appetite, the Risk strategy and the key internal risk policies of NLB Group, approved by the Management Board and the Supervisory Board of NLB d.d., specify the strategic objectives and guidelines concerning risk assumption, the approaches and methodologies of monitoring, measuring, mitigating and managing all types of risk at different relevant levels. Moreover, main strategic risk guidelines are integrated into annual business plan review and budgeting process. NLB Group is regularly monitoring its target Risk appetite profile, representing the key component of risk mitigation process. Risk profile enables detailed monitoring and proactive management. Risk limits usage and potential deviations from limits or target values are regularly reported to the respective committees and/or the Management Board of the Bank, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank.

Additionally NLB Group established comprehensive stress testing framework and other early warning systems in different risk areas, with the intention to contribute to setting and pursuing Group's business strategy, support decision making on on-going basis, strengthen the existing internal controls and timely responding when necessary. Stress testing framework includes all material types of risk and different relevant stress scenarios or sensitivity analysis, according to the vulnerability of the Group's business model. Stress testing has an important role when assessing the Group's resilience to stressed circumstances, namely from profitability, capital adequacy and liquidity forward looking perspective. As such it is embedded into Group's Risk management system, namely Risk appetite, ICAAP, ILAAP and Recovery plan, as an important component of sound risk management. Beside internal stress testing NLB Group as a systemically important bank also participates in the regulatory stress test exercises carried out by ECB.

NLB Group is the largest Slovenian banking and financial group with important presence in the SEE region. In accordance with its strategic orientations intends to be a sustainably profitable, predominantly working with clients on its core markets, providing innovative but simple customer-oriented solutions. NLB Group has a well-diversified business model. Based on the Group's business strategy credit risk is the dominant risk category, followed by operational risk, interest rate risk in banking book, liquidity risk, market risk and other non-financial risks. Regular risk identification and their assessment is performed within ICAAP process with aim to assure their overall control and effective risk management. Moreover, in 2018 ICAAP process was substantially upgraded in accordance with newly published ECB Guidelines, including its stronger integration into overall risk management system in order to assure proactive support for informed decision making.

Managing risks and capital efficiently at all levels is crucial for NLB Group sustained long-term profitable operations. Management of credit risk, representing the Group's most important risk, focuses on the taking of moderate risks – diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk and ensuring an optimal return considering the risks assumed. The liquidity risk tolerance is low. The NLB Group must maintain an appropriate level of liquidity at all times to meet its short-term liabilities, even if a specific stress scenario is realised. Further, with the aim of minimising this risk, the Group pursues an appropriate structure of sources of financing. When assuming operational risk, the NLB Group pursues the orientation that such risk must not significantly impact its operations. Risk appetite for operational risks is low to moderate, with focus on mitigation actions for important risks and key risk indicators servicing as an early warning system. The NLB Group's basic orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital that would arise from changed market interest rates and, therefore, a moderate tolerance for this risk is stated. The conclusion of transactions in derivative financial instruments at NLB d.d. is primarily limited to servicing customers and hedging Bank's own positions. In the area of currency risk, the NLB Group thus pursues the goals of low to moderate exposure. The tolerance for all other risk types, including non-financial risks, is low with a focus on minimising their possible impacts on the Group's operations.

The main NLB Group Risk Appetite objectives are following:

- preservation of a prudent level of capital adequacy, considering also regulatory requirements and relevant capital buffers, and maintaining of low financial leverage
- maintaining a solid level and structure of liquidity where stable customers' deposits are representing the main funding base
- adequate quality and diversification of the credit portfolio, sufficient coverage of non-performing loans and sustainable cost of risk across the economic cycle
- diversification of risk in exposures to banks and sovereigns
- sustainable tolerance to net losses from operational risk
- limited exposure to interest rate risk in banking book and to foreign exchange risk
- sustainable profitability in terms of risk-return
- sustainable size of subsidiary banks.

Values of the most important risk appetite indicators of NLB Group as at the end of 2018, reflecting interconnection between strategic business orientations, risk strategy and targeted risk appetite profile, were following:

- CAR 16.7%
- Cost of risk -43 bps
- The share of non-performing exposure by EBA (NPE) 4.7 %
- LTD 68.3 %
- LCR 361 %
- Net stable funding ratio (NSFR) 158.7 %
- Net losses from operational risk 5.7% of capital requirement for operational risk
- BPV sensitivity (of 200 bps) 7.0 % of capital

Consequently NLB Group concluded the year 2018 as self-funded, with strong liquidity and capital position, demonstrating the Group's financial resilience.

During 2018 no transactions of sufficiently material nature to impact on NLB Group's risk profile or distribution of risks on the NLB Group were carried out.

Condensed Statement of the management of risk is also published on the NLB intranet with the aim of strict adherence of the banks' employees at daily operations of the Bank, as regards the definition and importance of a consistent tendency of the adopted risks, and ways to take into account when adopting its daily business decisions.

Ljubljana, 12 April 2019

The Supervisory Board

Primož Karpe
Chairman of the Supervisory Board

The Management Board

László Pelle Member of the Management Board	**Archibald Kremser** Member of the Management Board	**Andreas Burkhardt** Member of the Management Board	**Blaž Brodnjak** President & CEO

Statement of the Arrangement of Internal Governance

NLB d.d. pursues internal governance, including corporate governance, according to the legislation applicable in the Republic of Slovenia, adhering also to its internal acts.

NLB d.d. fully complies with the acts referred to in Article 9, paragraph two of the Banking Act[24] .

With the aim of strengthening internal governance, the Bank operates especially in compliance with:

1. the provisions of the Banking Act defining the internal governance arrangements, especially the provisions of Chapter 3.4 (Governance system of a bank) and Chapter 6 (Internal governance arrangements and internal capital adequacy), in the part referring to bank/savings bank or members of a management body,

2. Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks[25] and

3. EBA Guidelines on internal governance, EBA guidelines on the assessment of the suitability of members of the management body and key function holders and EBA guidelines on remuneration policies and practices, based on the relevant regulations of the Bank of Slovenia on the application of these Guidelines[26].

By signing this statement we undertake to continue with proactive activities to strengthen and promote further internal governance arrangement and corporate integrity in wider professional, financial, corporate and other publics.

This Statement of the NLB is publicly available also on NLB d.d.'s webpage: https://www.nlb.si/corporate-governance.

Ljubljana,12 April 2019

The Supervisory Board

Primož Karpe
Chairman of the
Supervisory Board

The Management Board

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

24. Banking Act (ZBan-2), Official Gazette of the RS, no. 25/15, 44/16, 77/16 and 41/17.

25. Regulation of the Bank of Slovenia on internal management arrangements, management body and the internal capital adequacy assessment process for banks and savings banks, Official Gazette of the RS, no. 81/18.

26. https://www.bsi.si/financna-stabilnost/predpisi/seznam-predpisov/ureditev-notranjega-upravljanja

Statement of Non-financial information

In line with Article 70.c of the ZGD-1[27], the Bank included its Non-financial information statement in the Corporate social responsibility report 2018, which is published separately from the 2018 Annual Report of NLB Group.

27. Official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – decision of the Constitutional Court, 82/13, 55/15 and 15/17.

Disclosure on Shares and Shareholders of NLB

1. Information pursuant to ZGD-1, Article 70, paragraph 6

1.1. Structure of the Bank's share capital

The Bank has issued only ordinary registered no-par value shares, the holders of which have a voting right and the right to participate at the general meeting of bank's shareholders, the pre-emptive right to subscribe for new shares in case of share capital increase, the right to profit participation (dividends), the right to a share in surplus in the event of liquidation or bankruptcy of the Bank, and the right to be informed. All shares belong to a single class and are issued in book-entry form.

Table 31: Main shareholder structure of NLB (as at 31 December 2018)

Shareholder	Number of shares	Percentage of shares
Bank of New York Mellon on behalf of the GDR holders	11,071,394	55.36
- of which Brandes Investment Partners, L.P.*	1,342,035	6.71
- of which EBRD*	1,250,000	6.25
RoS	7,000,000	35.00
OTP banka d.d. - client account	550,000	2.75
Addiko Bank d.d. - Pension fund 1 - fiduciary account	267,500	1.34
Other shareholders	1,111,106	5.55
Total	**20,000,000**	**100.00**

* The information on GDR ownership is based on self-declarations by individual GDR holders as required pursuant to the applicable provisions of Slovenian law.

The Bank of New York Mellon holds shares in its capacity as the GDRs depositary for the GDR holders, and is not the beneficial owner of such shares. The GDRs are issued against the deposit of shares of the Bank pursuant to and subject to an agreement made between the Bank and the Bank of New York Mellon in its capacity as the GDR depositary and are admitted to trading on the London Stock Exchange. The GDR holders have the right to convert their GDRs into shares. The rights under the deposited shares can be exercised by the GDR holders only through the GDR depositary, and individual GDR holders do not have any direct right to either attend the general meeting of bank's shareholders or to directly exercise any voting rights under the deposited shares.

1.2. All restrictions relating to the transfer of shares and the restrictions on voting rights

The shares of the Bank are freely transferable, subject to the provisions of the Act of Association of the Bank which require the consent of the supervisory board, namely for the transfer of shares of the Bank by which the acquirer, together with the shares held by the holder before such acquisition and the shares held by third parties for the account of the acquirer, exceeds the share of 25% of the Bank's voting shares, authorization by the Bank is required. Approval for the transfer of shares is issued by the supervisory board.

The Bank rejects the request for approval of transfer shares if the acquirer, together with the shares held by the acquirer before the acquisition and the shares held by third parties for the account of the acquirer, exceeded the 25% share of the Bank with voting rights, increased by one share.

Notwithstanding the provision mentioned in the first paragraph, approval for the transfer of shares is not required if the acquirer of the shares has acquired them for the account of third parties, so that it is not entitled to exercise voting rights from these shares at its sole discretion, while at the same time committing to the Bank, it will not exercise voting rights on the basis of the instructions of an individual third party for whose account it has acquired the shares if, together with the instructions for voting, it does not receive a written guarantee from that person that this person has shares for his own account and that this person is not, directly or indirectly, a holder of more than 25% of the Bank's voting rights.

The acquirer who exceeds the share of 25% of the Bank's shares with voting rights, and does not require the issuance of approval for the transfer of shares, or does not receive the approval of the Bank, may exercise the voting right from 25% of the shares with the voting rights.

There are no restrictions other than those mentioned and those that are regulatory.

1.3. Qualifying holdings

Table 32: Significant direct and indirect ownership of the company's securities in terms of achieving a qualifying holding as defined in the Takeovers Act (as at 31 December 2018)

Shareholder	Number of shares	Percentage of shares	Nature of owner-ship
RoS	7,000,000	35.00	shares
Brandes Investment Partners, L.P.*	1,342,035	6.71	GDRs
EBRD*	1,250,000	6.25	GDRs

* In the form of GDRs.

1.4. Securities carrying special controlling rights

The Bank did not issue any securities carrying special controlling rights.

1.5. The employee share scheme, if used by the company, for shares to which the scheme relates and about the method of exercising control over this scheme, if the controlling rights are not exercised directly by employees

The Bank has no employee share schemes.

1.6. All agreements among shareholders which are known to the company and could result in restrictions relating to the transfer of securities or voting rights

The Bank is not aware of such agreements.

1.7. The company's rules on:

The appointment or replacement of members of the management or supervisory bodies

The Management Board of the Bank is comprised of three to six members, one of whom is appointed President of the Management Board of the Bank. The number of Management Board members is determined by a resolution of the Bank's Supervisory Board. The President and other members of the Management Board of the Bank are appointed and recalled by the Supervisory Board of the Bank; the President of the Management Board of the Bank may propose to the Chair of the Supervisory Board of the Bank to appoint or recall an individual member or the remaining members of the Management Board of the Bank. The President and members of the Management Board of the Bank shall be appointed for a period of five years and may be re-appointed for another term of office. The president and members of the Management Board of the Bank may be recalled prior to the expiry of their term of office in accordance with applicable laws and Articles of Association. Each member of the Management Board of the Bank may prematurely resign her/his term of office with a period of notice of three months. A written notice shall be delivered to the Chair of the Supervisory Board of the Bank. The notice term may be shorter than three months if so requested by the resigning member of the Management Board of the Bank in his/her notice and subject to the approval of the Supervisory Board of the Bank.

A member of the Bank's Management Board may only be a person who fulfils the legally prescribed conditions for a management board member under the law on banking and who obtained a licence from the BoS or the ECB, if executing the competences and tasks from Item (e) of Paragraph 1 of Article 4 of Regulation (EU) no. 1024/2013 for the performance of the function of a bank's management board member under the law regulating banking. The Bank assesses every candidate following the Bank's Policy governing Fit&Proper assessment prior to the appointment.

The supervisory board of the Bank consists of (9) members, elected and recalled by the Bank's general assembly from persons proposed by shareholders or the supervisory board of the Bank. Members of the supervisory board are elected by an ordinary majority of votes cast by shareholders. The members of the supervisory board of the Bank are elected for the period lasting from the day of their election until the end of the Bank's annual general meeting of shareholders, which decides on the use of accumulated profit for the fourth business year since they have been elected, unless otherwise stipulated at the time of appointment of individual members. The general meeting of the Bank may dismiss an individual or all members of the supervisory board even before the expiration of their term of office. A resolution on a dismissal shall be valid if adopted with at least a three quarter majority of all votes cast. The Supervisory Board of the Bank shall at its first meeting after an appointment elect from among its members a Chair and at least one Deputy Chair of the Supervisory Board of the Bank. All of the supervisory board members shall be independent professionals as defined by the Articles of Association.

To ensure the diversity of the supervisory board, in addition to all legal and statutory requirements, the members of the Supervisory Board must have appropriate experience, skills, knowledge, and competences, including personal integrity and the ability to dedicate sufficient time to the performance of the function, so they can successfully supervise the operation of the Management Board and the operations of the Bank. Members of the supervisory board must have different skills and experience to complement each other and must act in accordance with the goals, strategies and policies of the Bank in the best interest of the Bank.

Complementarity and diversity must be achieved through the composition of the Supervisory Board, which must take into the account the competences of the Bank's Supervisory Board, and also reflect:

- Different experience, age, education, and professional skills at the level of individual members of the Supervisory Board and, consequently, Supervisory Board as a whole, in particular in the area of capital markets, financial analysis and financial reports, issues related to financial soundness, strategic planning, corporate governance, and regulations

- knowledge of the local, regional, and, where appropriate, global economic markets, as well as the characteristics of the legal and regulatory environment, also taking into account the international experience of individual members of the Supervisory Board

- appropriate way of communication, cooperation, and critical assessment or discussion in the decision-making process of the administration, to which the attributes of each individual member of the management contribute.

In the composition of the membership of the Supervisory Board of the Bank, it is also an aim to ensure that both sexes are appropriately represented.

Amendments to Articles of Association:
A qualified majority of at least 75% (seventy-five percent) of the votes cast by shareholders at the general meeting of bank's shareholders is required for the adoption of any amendments of the Articles of Association.

1.8. Authorisations given to management, particularly authorisations to issue or purchase own shares
No authorisations to issue or purchase own shares have been given to the management board.

1.9. All major agreements to which the company is a party and which take effect, are changed or cancelled following a change in control over the company resulting from a bid, as laid down by the Act governing M&A, and the effects of such agreements.
There are no major agreements to which the Bank is a party, and which would take effect, be changed, or cancelled following a change in control over the Bank resulting from a bid.

1.10. All agreements between the Bank and its management or supervision bodies or its employees which envisage compensation if, due to a bid as laid down by the Act governing M&A, these persons resign, are dismissed without a well-founded reason, or their employment is terminated
In line with the employment contracts of the members of the Management Board, in case the Supervisory Board recalls a member of the Management Board "for other business and economic reasons", such a member of the Management Board of NLB is entitled to compensation for early termination of his term of office. The member of the Management Board shall not be entitled to compensation for early termination of the term of office if he is employed in NLB or in NLB Group after the termination of the term of office. In the event of resignation, the member of the Management Board shall not be entitled to any compensation for early discontinuation of the term of office, unless otherwise decided by the Supervisory Board.

2. Number of shares held by members of Supervisory Board and Management Board

Table 33: Number of shares held by members of Supervisory Board and Management Board (as at 14 November and 31 December 2018)

	Shares held as at 14 November 2018		Shares held as at 31 December 2018	
	Number	%	Number	%
Name of member of Supervisory Board				
Primož Karpe	606	0.003%	606	0.003%
Andreas Klingen	378	0.002%	378	0.002%
Alexander Bayr	—	—	—	—
David E. Simon*	582	0.003%	582	0.003%
László Urban	303	0.002%	303	0.002%
Peter Groznik**	350	0.002%	350	0.002%
Simona Kozjek	160	0.001%	160	0.001%
Vida Šeme Hočevar	—	—	—	—
Name of member of Management Board				
Blaž Brodnjak	1,136	0.006%	1,136	0.006%
Archibald Kremser	151	0.001%	151	0.001%
Andreas P. Burkhardt	151	0.001%	151	0.001%
László Pelle	151	0.001%	151	0.001%

* David E. Simon holds 2,910 GDRs, which is equal to 582 shares (as 1 share represents 5 GDRs).
** Peter Groznik holds Bank's shares indirect through a company wholly owned by Peter Groznik.

3. Stock option agreements

The Bank has no stock option agreements in relation with listed shares.

4. Dividend taxation

Withholding tax

A Slovenian payer is required to deduct and withhold the amount of Slovenian corporate or personal income tax from dividend payments made to the certain categories of payees:

- Individualist: 25%
- Intermediaries: 25%
- Legal entities (other than Intermediaries): 15%

There are some exemptions if dividends are paid to intermediaries and legal entities

For the purposes of Slovenian tax legislation, the GDR depositary will qualify as an intermediary. Therefore, the dividends paid by the custodian to the GDR depositary will be subject to the deduction and withholding of Slovenian tax at the rate of 25 per cent. A holder, an owner of a GDR or a beneficial owner will be entitled, if and to the extent applicable, to claim a refund of the withholding tax.

Application of Double Tax Treaties

If the payee is not an intermediary, Slovenian tax authorities may approve the application of a lower tax rate specified in the double tax treaty between the RoS and the country of residence of the payee if the Slovenian payer provides certain information on the payee and a confirmation that the payee is resident for taxation purposes in such a country, issued by the tax authorities of such a country.

Refund of Withholding Tax

If the Slovenian tax was deducted and withheld at a higher tax rate than it would be paid if a Slovenian payer would make the dividend payment directly to such person as a payee or higher tax rate, than the one specified in the double tax treaty, the payee of the dividend is entitled to the refund of the overpaid tax. The tax refund is enforced by filing a claim to the Financial Administration of the Republic of Slovenia.

Legal persons

Dividends in respect of the shares received by a legal person which is Slovenian resident are exempt from Slovenian corporate income tax (davek od dohodkov pravnih oseb).

Individuals

The amount of tax withheld from a dividend payment received by an individual constitutes the final amount of Slovenian Personal Income Tax (dohodnina) in respect of such a dividend payment.

Chapter 20

Corporate and Social Responsibility

Highlights:

- Key pillars of CSR activites in the Group are: knowledge and lifelong learning, empowerment of entrepreneurship, humanitarianism, supporting sports, promotion of art, and preservation of cultural heritage.

The Group has an important socially responsible mission – in addition to good business performance the Group wishes to contribute to society by providing a higher quality of life in general. In 2018, all NLB Group members carried out numerous CSR activities in accordance with the common CSR Politics, looking for synergies, sharing best practices and addressing new opportunities to make the impact on society meaningful and worthwhile. As a caring mentor, the Group has a commitment to be responsible to the clients, employees, society, and the environment. The key pillars of socially responsible behaviour of the Group are: knowledge and lifelong learning, empowerment of entrepreneurship, humanitarianism, promoting a healthy lifestyle by supporting sports, promotion of art, and preservation of cultural heritage. The projects supported reflect the Group's values and support its identity together with everything for which the Group stands.

The contribution through CSR activities have been recognised by society, and several awards that the Group members gained in 2018 have also shown that actions matter. The Bank holds the prestigious award "Top Employer" for the third consecutive year, and owns the Full Certificate of a "Family-Friendly Company" for the second year. Both are an important proof of the efforts to ensure that employees have family-friendly working conditions and the opportunity to have a better balance between work and domestic obligations. Similar efforts have been recognised in other Group members as well. NLB Banka Prishtina received the Employer of the Year 2018 award by the Kosovo Chamber of Commerce. NLB Banka Sarajevo was elected the second most desirable employer in the financial sector in BiH, and the Bank's CEO Lidija Žigić was elected as the woman that contributing most to the development of the financial and banking sector in the Federation of BiH. NLB Banka Skopje won The National Award for Best Social Responsible Practices for 2018 with the project, "Friendship with Special Olympics Macedonia", given by the Ministry of Economy of Republic of Macedonia.

A commitment to employees

The awards the Group won in the field of employee care show constant development and the effort to improve both working conditions and other significant areas that contribute to one's healthier life. In the Bank, there is a continouos project "Healthy Bank", that has promoted health for more than three years, built awareness and encouraged a healthy lifestyle among employees. The emphasis is on disease prevention, the identification of symptoms, and learning to make healthy lifestyle changes.

The Bank promotes education of its employees, and is committed to high quality standards as an ever-learning organisation. Within the NLB Training Centre, employees are being educated in different areas, to gain both professional knowledge and various social skills in cooperation with renowned experts and professionals, within and outside of the Bank.

Just before the summer season starts, there's a two-day event, "NLB Sports Games" for employees from all Group members. They participate in different sports games and there is always a special social responsible activity during the event. In 2018 the Group donated a new volleyball playground to the Municipiality of Murska Sobota. Another big event was the New Year's celebration, which happened at the same time in all member countries. It was a perfect ending of the year, emphasising the common goals and spirit of one big team from six SEE markets.

Promoting financial literacy and entrepreneurship

In the Group, special attention is put on knowledge and lifelong learning. By helping young people on their path to financial independence, various incentives have been introduced that promote acting responsibly for a better and more prosperous future.

The Financial Literacy Program is primarily aimed at pre-school children, elementary school students, secondary school students, faculty students, and secondary school teachers. Depending on the age and needs of children and adolescents, tailor-made programs with general and specific topics on money management were created. In most primary and secondary schools there is still lack of financial knowledge themes, even though this is a very important foundation for a financially independent life.

Another similar initiative is empowering entrepreneurs. In 2018, the Bank Innovative Entrepreneurship Centre, which was established to improve the business climate and financial mentoring in Slovenia, continued with education and business events organised on its own initiative or in cooperation with recognised Slovenian partners. Most significant projects in the year 2018 were implementation of numerous Financial Literacy Programs for secondary school students and young people. Also, a new project with the presentation of the CANVAS model for the secondary school, was implemented. NLB participated in the “Start-up” Slovenia project for the second year. It is a springboard for young Slovenian entrepreneurs and their brands, and the Bank is actively sharing its knowledge of which business factors are important from the Bank’s point of view, so that an entrepreneur can get funds, insure its transactions, etc. to run a business successfully.

Supporting professional sport and encouraging sports for youth

The Bank continues to support top Slovenian athletes who are also the greatest ambassadors of Slovenia in the world. The Bank is a traditional Golden sponsor of the Slovenian Alpine Ski Team for the twentieth consecutive year, is also a big sponsor of Slovenian Football Team, and is the official sponsor of the Handball Federation of Slovenia and sponsor of the First Handball Men’s League of NLB.

The initiative “NLB Sports for Youth” was successfully expanded in 2018, in order to encourage and responsibly educate young people. Thirty-eight sport clubs in strategic disciplines in all regions of Slovenia were connected and financially supported. This initiative supports content of the programme that is rich in fair play education, promotes responsible behaviour, and emphasises the importance of recreation in general. The programme was also established to connect various local communities in Slovenia and raise the level of sports participation, as well as socially responsible practices among youths. All Group members started to focus on their key pillar sports to support professional sports and to encourage young people to get involved in sports.

Humanitarianism

A very important pillar of social responsibility is humanitarianism. The Group members help hospitals and other humanitarian institutions in need by donating funds for equipment they need for the treatment of different diseases.

In 2018, the Group continued with the Children Health Care Project from the previous years, as well as supporting other hospital institutions in order to improve the level of services. NLB Banka Prishtina and NLB Banka Skopje mostly donate to the orphanages in their region to focus on helping the most vulnerable children.

The Group is especially proud on the numerous humanitarian projects in cooperation with clients and employees, i.e. traditional blood donation, providing infrastructure for fund raising through the NLB Contact centre, etc.

Supporting Art and preserving Cultural Heritage

The Group remains a supporter of the arts and takes care of the preservation of cultural heritage. Throughout 2018, 23 well visited exhibitions were organised in galleries in the premises of member banks in Ljubljana, Belgrade, and Skopje. The Bank is proud of its Art Collection by Slovenian authors of the 20th century, which was, together with the Museum Collection as an important cultural heritage, in October 2018 declared as the Slovenian national treasure.

Chapter 21

GRI Standards Disclosure for NLB Group

Economic

GRI Topic	GRI Disclosure	Value	Comment
GRI 201 – Economic Performance	**201-1: Direct economic value generated and distributed**		In NLB Group Annual report for 2018
	a. Direct economic value generated and distributed (EVG&D) on an accruals basis, including the basic components for the organization's global operations as listed below. If data are presented on a cash basis, report the justification for this decision in addition to reporting the following basic components:		In NLB Group Annual report for 2018
	i. Direct economic value generated: revenues;		In NLB Group Annual report for 2018.
	ii. Economic value distributed: operating costs, employee wages and benefits, payments to providers of capital, payments to government by country, and community investments;		In NLB Group Annual report for 2018.
	iii. Economic value retained: 'direct economic value generated' less 'economic value distributed'.		In NLB Group Annual report for 2018.
	b. Where significant, report EVG&D separately at country, regional, or market levels, and the criteria used for defining significance.		In NLB Group Annual report for 2018.

GRI Topic	GRI Disclosure	Value	Comment
GRI 202 – Market Presence	**202-2: Proportion of senior management hired from the local community**		
	a. Percentage of senior management at significant locations of operation that are hired from the local community.	98% Republic of Slovenia. 100% Republic of Serbia. 100% Republic of Kosovo. 100% Federation of Bosnia and Herzegovina. 93.3% Montenegro. 100% Republic of Srpska (Bosnia and Herzegovina) 100% Republic of Macedonia	The recruitment procedure: In the event that NLB evaluates that the pool of talents does not provide a suitable candidate for the vacant senior management position, NLB prepares the tender invitation. The invitation is published on NLB's website and on the premises of the National Employment Office. Among the registered candidates there are several selection interviews and selection tests carried out. Fit & Proper rating is also involved. The selected candidates are employed at NLB for an indefinite period with 6 months' probation period. In Macedonia usually the selected candidates for senior positions sign the first contract for appointment on a definite period of 12 months, which is considered probation period. Prolongation of contract then follows the mandate duration.
	b. The definition used for 'senior management'		Senior management: General Managers directly subordinated to Management Board (B-1), the directors that are subordinated to B-2 level General Managers, other employees, who have an individual contract of employment (Advisor, Deputy Director, Head of Unit).
	c. The organization's geographical definition of 'local'.		RoS and locations of NLB Group Members.
	d. The definition used for 'significant locations of operation'.		RoS and locations of NLB Group Members.

GRI Topic	GRI Disclosure	Value	Comment
GRI 205 – Anti-corruption	**205-2: Communication and training about anti-corruption policies and procedures**		
	a. Total number and percentage of governance body members that the organization's anti-corruption policies and procedures have been communicated to, broken down by region.	NLB Management Board (MB): 4 members (100%), NLB Supervisory Board (SB): 8 members (100%). NLB Group: MB and SB: 119 members (91%).	Members of the SB were acquainted with this topic in the context of specialized education in the field of risk of compliance and integrity, within which the risks of corruption and internal regulation of the area were presented on 24 May 2018. NLB Group NLB Group core members are committed to the same procedures as NLB (special anti-corruption trainings and policies), non-core members are informed and trained during the adoptation process of the document NLB Group code of conduct. The members of MB and SB are informed: 100% for NLB members, rest of them are external members.
	b. Total number and percentage of employees that the organization's anti-corruption policies and procedures have been communicated to, broken down by employee category and region.	NLB: 2,748* (100%) of employees. NLB Group: 5,535* (100%) of employees * figure is different from the figure in other part of Business report due to reporting method.	NLB Group: NLB Group core members are committed to the same procedures as NLB (special anti-corruption trainings and policies), non-core members are informed and trained during the adoptation process of the document NLB Group code of conduct. The members of MB and SB are informed: 100% for NLB members, rest of them are external members.
	d. Total number and percentage of governance body members that have received training on anti-corruption, broken down by region.	NLB: Manangement Board (MB): 4 members (100%) Supervisory Board (SB): 8 members (100%). NLB Group: MB and SB: 105 members (70%).	NLB: Members of the SB were acquainted with this topic in the context of specialized education in the field of risk of compliance and integrity, within which the risks of corruption and internal regulation of the area were presented on 5 September 2018. NLB Group: NLB Group core members are committed to the same procedures as NLB (special anti-corruption trainings and policies), non-core members are informed and trained during the adoptation process of the document NLB Group code of conduct. The members of MB and SB are informed: 100% for NLB members, rest of them are external members.
	e. Total number and percentage of employees that have received training on anti-corruption, broken down by employee category and region.	NLB: In 2018 Successfully finished training: 2,323 employees, which is 85% of all employees (including long sick leave, maternity leave etc.). NLB Group: In 2018 Successfully finished training: 4,590 employees, which is 83% of all employees (including long sick leave, maternity leave etc.).	NLB: Anticorruption training is obligatory for all employees. NLB Group: NLB Group core members are committed to the same procedures as NLB dd (special anti-corruption trainings and policies), non-core members are informed and trained during the adoptation process of the document NLB Group code of conduct. The members of MB and SB are informed: 100% for NLBdd members, rest of them are external members.

GRI Topic	GRI Disclosure	Value	Comment
GRI 205 – Anti-corruption	**205-3: Confirmed incidents of corruption and actions taken**		This means incidents of corruption (which is meant to include bribery, fraud or money laundering) and actions taken.
	a. Total number and nature of confirmed incidents of corruption.	NLB d.d: 3 confirmed incidents of corruption; bribery for granting a loan. NLB Group: 3 confirmed incidents of corruption; bribery for granting a loan.	
	b. Total number of confirmed incidents in which employees were dismissed or disciplined for corruption.	NLB: 3 NLB Group: 3	
	c. Total number of confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption.	NLB: 0 NLB Group: 0	
	d. Public legal cases regarding corruption brought against the organization or its employees during the reporting period and the outcomes of such cases.	NLB: 0 NLB Group: 0	

Environmental

GRI Topic	GRI Disclosure	Value	Comment
GRI 301 – Materials	**301-1: Materials used by weight or volume**		
	a. Total weight or volume of materials that are used to produce and package the organization's primary products and services during the reporting period, by:		
	renewable materials used.	NLB: 30.07 A4 pages per employee per working day. NLB Group: The reporting system to be implemented.	NLB: Data is related to used A4 paper per employee per working day. The number of pages has been constantly reduced since 2014 (42). Compared to 2016, the amount of paper used decreased again (from 39.6 pages to 30.07 pages in 2018). NLB Group: The reporting system to be implemented.
GRI 302 – Energy	**302-1: Energy consumption within the organization**		
	electricity consumption in kWh	NLB: 12,475,496 NLB Group: The reporting system to be implemented.	NLB: In 2018 we continued with the reduction of electricity consumption, which is 3.5% lower than in the year 2017. NLB Group: The reporting system to be implemented.
GRI 306 – Effluents and Waste	**306-2: Waste by type and disposal method**		NLB: The waste is being treated by outsourced waste company. NLB Group: The reporting system to be implemented.
GRI 307 – Environmental Compliance	**307-1: Non-compliance with environmental laws and regulations**		NLB: NLB received no fines or penalties regarding failure to comply with environmental laws. NLB Group: The reporting system to be implemented.

Social

GRI Topic	GRI Disclosure	Value	Comment
GRI 401 – Employment	**401-1: New employee hires and employee turnover**		
	a. Total number and rate of new employee hires during the reporting period, by age group, gender and region.	NLB In total 148 new employees in 2018. All employees were from the Republic of Slovenia. NLB Group: In total 441 new employees in 2018 (strategic group members) 99% of new hires were hired from local community.	NLB: In total 148 new employees in 2018. 68 were younger than 30 years, 45.9% 73 were between 30 and 50, 49.3% and 7 employees were older than 50, 4.7% NLB Group: In total 441 new employees in 2018. 204 were younger than 30 years, 46.3% 224 were between 30 and 50, 50.8% and 13 employees were older than 50, 2.9%
	b. Total number and rate of employee turnover during the reporting period, by age group, gender and region.	NLB: In total 248 employees departed from NLB in 2018. NLB Group: In total 501 employees departed from NLB Group in 2018.	NLB: In total 248 employees departed from NLB in 2018. 13 were younger than 30, 5.2% 107 were in the age between 30 and 50, 43.2% 198 employees were older than 50 years old, 51.6%. NLB Group: In total 501 employees departed from NLB Group in 2018. 55 were younger than 30, 11% 248 were in the age between 30 and 50, 49.5% and 198 employees were older than 50 years old, 39.5% 34.1% were men and 65.9% were women.
	401-2: Benefits provided to full-time employees that are not provided to temporary or part-time employees		NLB Group: Promote and protect the rights, obligations and responsibilities arising from the employment relationship are regulated by laws, collective agreements and internal regulations. All employees have rights as they are determined by law, collective agreements and internal regulations.
	401-3: Parental leave		
	a. Total number of employees that were entitled to parental leave.	NLB Group: 245 employees	NLB Group: 244 female, 1 male
	b. Total number of employees that took parental leave.	NLB Group: 245 employees	NLB Group: 244 female, 1 male
	c. Total number of employees that returned to work in the reporting period after parental leave ended, by gender.	NLB Group: 245 employees	NLB Group: 244 female, 1 male
	d. Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work.	NLB Group: 245 employees	NLB Group: 244 female, 1 male
	e. Return to work and retention rates of employees that took parental leave.	NLB Group: 100%	
GRI 402 - Labor/ Management Relations	**402-1: Minimum notice periods regarding operational changes**		NLB Group: The way of cooperation with the Labor unions and the Worker's council is fixed by collective agreements, the Act of workers and management and the Agreement on cooperation between Worker's council and employer. Deadlines for informing the Unions and the Worker's council is in a minimum of 30 days.

GRI Topic	GRI Disclosure	Value	Comment
GRI 403 - Occupational Health and Safety	**403-1: Workers representation in formal joint management–worker health and safety committees**		
	a. Minimum number of weeks' notice typically provided to employees and their representatives prior to the implementation of significant operational changes that could substantially affect them.	NLB Group: 4 weeks in minimum prior to implementation of new operational changes with significant impact.	
	403-4: Health and safety topics covered in formal agreements with trade unions		
	a. Whether formal agreements (either local or global) with trade unions cover health and safety.	NLB Group: Global agreement with trade union.	
	b. If so, the extent, as a percentage, to which various health and safety topics are covered by these agreements.	NLB Group: 100%	
GRI 404 – Training and Education	**404-1: Average hours of training per year per employee**		
	a. Average hours of training that the organization's employees have undertaken during the reporting period.	NLB Group: 37.9 hours per employee in the 2018.	NLB Group: In 2018 12,692 employees participated in internal lectures and workshops and 3,143 employees participated on external training courses.
	404-2: Programs for upgrading employee skills and transition assistance programs		
	a. Type and scope of programs implemented and assistance provided to upgrade employee skills.	NLB Group: Internal education (lectures and workshops), e-trainings, external training courses, courses for new employees.	Every 3-month Human Resources department publish the list of all trainings and education programs for the next period. It includes 30 different education programs at average.
	b. Transition assistance programs provided to facilitate continued employability and the management of career endings resulting from retirement or termination of employment.	NLB Group: Provided for all employees in the case of termination of employment in the case of structural downsizing.	
	404-3: Percentage of employees receiving regular performance and career development reviews		
	a. Percentage of total employees by gender and by employee category who received a regular performance and career development review during the reporting period.	NLB Group: 100%	NLB Group: The aim of the organization was all employees to receive a regular performance and career development review.

GRI Topic	GRI Disclosure	Value	Comment
GRI 405 – Diversity and Equal Opportunity	**405-1: Diversity of governance bodies and employees**		
	a. Percentage of individuals within the organization's governance bodies in each of the following diversity categories:		As organization's governance bodies we consider NLB Management Board and NLB Supervisory Board.
	Gender:	Management Boards in NLB Group: 27.9 % female 72.1 % male Senior management in NLB Group (B-1) 52% female 48% male	NLB Group: Management Boards in NLB Group members have 28 members, 25 male and 3 females. Supervisory Board has 58 members, 37 male and 21 females. Senior management: General Managers directly subordinated to Management Board (B-1), have 127 members in NLB Group (61 male and 66 female).
	Age group: under 30 years old, 31-50 years old, over 51 years old.	NLB Group: Under 30 years 0 31-50 years old 65.6 % Over 51 years old 34.4 %	
	b. Percentage of each of the following diversity categories.	NLB Group: Under 30 years 8.5 % 31-50 years old 62.3 % Over 51 years old 29.2 %	
	405 – 2 Comparison of basic salary based on gender of employees		
	405-2A Ratio of the basic salary and remuneration of women to men for each employee category, by significant locations of operation		The level of wages in the bank is governed by internal rules and collective agreements and depends on the complexity of the workplace and the performance of employees. The level of complexity of the individual workplace is determined on the basis of the conversion of the criteria set out in the systemization rules of jobs using factor analysis according to the job evaluation model. All employees in the bank have the same opportunities and opportunities regardless of gender, age and location.
	405-2B The definition used for significant locations of operation		Republic of Slovenia and locations of NLB Group Members.
GRI 406 – Non-discrimination	**406-1: Incidents of discrimination and corrective actions taken**		NLB has a policy of zero tolerance to any form of discrimination and violence.
	a. Total number of incidents of discrimination during the reporting period.	0	

Chapter 22

Events after the end of the 2018 financial year

On 8 January, 2019 the company REAM, Beograd was merged with SR-RE, Beograd.

On 15 January 2019 a decrease of shareholders equity for KM 6,500,759.20 has been entered into register for the company NLB Leasing, Sarajevo.

On 17 December 2018 there has been a share transfer contract signed for the transfer of a 100% share of the company REAM, Zagreb from The Bank to S-REAM. The share transfer was entered into registry on 21 January 2019.

On 28 January 2019, after the end of the liquidation proceedings, the company NLB Lizing dooel, Skopje was deleted from the companies register.

On 4 February 2019, the Bank joined the new payment system Bankart Instant Payment Settlement (BIPS) which enables the implementation of instant payments between banks on Slovenian territory.

On 7 February 2019, the Bank received Top Employer Certificate for the fourth consecutive year.

On 14 February 2019, the Bank disclosed new decision establishing prudential requirement from ECB, which is applicable from 1 March 2019 and leading to total SREP capital requirement (TSCR) of 11.25%, that includes minimum own funds of 8% (Pillar 1 Requirement) and own funds requirement of 3.25% (Pillar 2 Requirement) to be held in excess of minimum own funds requirement on consolidated level. With this decision, ECB has decreased the Pillar 2 Requirement from 3.5% to 3.25% of CET 1. This decision together with applicable combined buffer requirement leads to OCR of 14.75%.

On 20 February 2019, the Bank announced that it started with analysing the alternatives for optimizing the Bank's capital by raising additional capital (Tier 2).

Financial Statements

Audited Financial Statements of NLB Group and NLB pursuant to the International Financial Reporting Standards as adopted by the European Union

Contents

Independent auditor's report

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the separate financial statements of Nova Ljubljanska Banka, d.d. ("the Bank") and the consolidated financial statements of NLB Group ("the Group"), which comprise the statement of financial position and consolidated statement of financial position as at 31 December 2018, the income statement and consolidated income statement, the statement of other comprehensive income and consolidated statement of other comprehensive income, the statement of changes in equity and consolidated statement of changes in equity, the statement of cash flows and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2018 and its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014 of the European Parliament and the Council"). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Building a better working world

Credit risk and individual impairment of loans and advances to customers

The carrying amount of loans and advances given customers at amortized costs amounts to 7.1 billion EUR (or 56% of total assets) at the Group and 4.5 billion EUR (or 51% of total assets) at the Bank on 31 December 2018. Total provisions on 31 December 2018 at the Bank were 203 million EUR and at the Group 454 million EUR. Impairment is a highly subjective area due to the level of judgment applied by management in determining provisions. Experience from previous years has shown that banks can face serious problems and capital shortfalls in periods of recession and financial crisis, which can have material impact on the financial statements and pose threat to the going concern assumption. Mainly, the highest risk is related to assessment of individual provisions for loans as it involves significant judgment. For further information, refer to Note 6.1. Credit risk management of the separate and consolidated financial statements.

We understood and evaluated the processes for identifying default events within the loan portfolios, as well as the impairment assessment processes for loans.

We assessed the criteria for determining whether a default event had occurred and therefore whether there was a requirement to calculate an impairment provision. We tested a sample of performing loans with characteristics that might imply a default event had occurred to assess whether default events had been identified by management.

For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

We assessed the adequacy of the Bank's and the Group's disclosures included in Note 6.1. Credit risk management of the separate and consolidated financial statements.

Information technology (IT) systems and controls over financial reporting

We identified IT systems, and controls over financial reporting as an area of focus as the Bank's and the Group's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. Therefore, we have identified IT systems and controls over the financial reporting as a key audit matter.

We involved IT experts in assessing and testing the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to the financial reporting. We examined the framework of governance over the Bank's and the Group's IT organization and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. Where necessary we also carried out direct tests of certain aspects of the security of the Bank's and the Group's IT systems including access management and segregation of duties.

Building a better working world

Other information

Other information comprises the information included in the separate and consolidated Annual Report other than the separate and consolidated financial statements and auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate and consolidated financial statements is, in all material respects, consistent with the separate and consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank and the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management, supervisory board and the audit committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

The audit committee and supervisory board are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control;

• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

• conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern;

• evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

• obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the supervisory board, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

Appointment and Approval of Auditor

We were appointed as the statutory auditor by the statutory body of the Bank and the Group on 7.9.2018 based on our approval by the General Meeting of Shareholders of the Bank and the Group on 27.6.2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

Consistence with Additional Report to Audit Committee

Our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Bank, which we issued on the same date as the issue date of this report.

Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and its controlled undertakings and we remain independent from the Company and its controlled undertakings in conducting the audit.

EY
Building a better working world

In addition to statutory audit services and services disclosed in the Annual Report and in the separate and consolidated financial statements, no other services which were provided by us to the Company and its controlled undertakings.

Ljubljana, 26 March 2019

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

Simon Podvinski
Certified auditor

Statement of management's responsibility

The Management Board hereby confirms its responsibility for preparing the consolidated financial statements of NLB Group and the financial statements of NLB for the year ending on 31 December 2018, and for the accompanying accounting policies and notes to the financial statements.

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and with the requirements of the Slovenian Companies Act and Banking Act so as to give a true and fair view of the financial position of NLB Group and NLB as at 31 December 2018, and their financial results and cash flows for the year then ended.

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

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

The Management Board

László Pelle
Member of the Management Board

Archibald Kremser
Member of the Management Board

A. Burkhardt

Andreas Burkhardt
Member of the Management Board

Blaž Brodnjak
President & CEO

Income Statement

in EUR thousands

	Notes	NLB Group 2018	NLB Group 2017	NLB 2018	NLB 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	4.1.	358,857	363,733	181,431	188,255
Interest and similar expense	4.1.	(45,947)	(54,417)	(23,399)	(29,466)
Net interest income		**312,910**	**309,316**	**158,032**	**158,789**
Dividend income	4.2.	118	179	49,692	58,062
Fee and commission income	4.3.	218,559	207,908	132,677	127,749
Fee and commission expense	4.3.	(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	4.4.	45	12,242	(365)	11,711
Gains less losses from financial assets and liabilities held for trading	4.5.	9,500	13,067	2,885	7,065
Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss	4.6.	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	5.6.a)	472	(813)	472	(813)
Foreign exchange translation gains less losses	4.7.	745	2,149	218	(1,007)
Gains less losses on derecognition of assets		2,644	1,748	123	249
Other operating income	4.8.	18,680	26,424	9,768	12,172
Other operating expenses	4.9.	(28,268)	(29,411)	(14,637)	(15,249)
Administrative expenses	4.10.	(261,432)	(256,907)	(161,439)	(157,877)
Depreciation and amortisation	4.11.	(27,224)	(27,802)	(17,531)	(18,010)
Provisions for credit losses	4.12.	3,156	3,460	1,157	2,296
Provisions for other liabilities and charges	4.12.	(1,512)	(8,711)	2,258	(9,640)
Impairment of financial assets	4.13.	27,047	39,988	28,659	39,181
Impairment of non-financial assets	4.13.	(5,414)	(5,207)	981	(1,173)
Share of profit from investments in associates and joint ventures (accounted for using the equity method)	5.14.c)	5,446	4,782	-	-
Gains less losses from non-current assets held for sale	4.14.	11,828	(2,686)	11,822	610
Profit before income tax		**233,336**	**237,311**	**177,486**	**184,875**
Income tax	4.15.	(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)	4.16.	10.2	11.3	8.3	9.5

The notes are an integral part of these financial statements.

Statement of comprehensive income

in EUR thousands

		NLB Group		NLB	
	notes	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	5.4.c)	**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	5.21.	**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	5.4.c)	(12,073)	-	(11,371)	-
Transferred to income statement	4.4., 4.13.	(270)	-	60	-
Available-for-sale financial assets (IAS 39)		**-**	**(7,261)**	**-**	**(9,904)**
Valuation gains/(losses) taken to equity	5.5.c)	-	4,955	-	1,781
Transferred to profit or loss	4.4., 4.13.	-	(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	5.21.	**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	-	-

The notes are an integral part of these financial statements.

Statement of financial position

in EUR thousands

		NLB Group			NLB		
	Notes	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	5.1.	1,588,349	1,255,824	1,256,481	795,102	569,943	570,010
Financial assets held for trading	5.2.a)	63,609	72,189	72,189	63,611	72,180	72,180
Non-trading financial assets mandatorily at fair value through profit or loss	5.3.a)	32,389	32,913	-	29,141	32,748	-
Financial assets designated at fair value through profit or loss	5.3.b)	-	-	5,003	-	-	634
Financial assets measured at fair value through other comprehensive income	5.4.	1,898,079	1,654,856	-	1,528,314	1,283,767	-
Financial assets measured at amortised cost							
- debt securities	5.7.a)	1,428,962	1,301,413	-	1,274,978	1,178,088	-
- loans and advances to banks	5.7.b)	118,696	509,970	-	110,297	461,830	-
- loans and advances to customers	5.7.c)	7,124,633	6,956,362	-	4,451,477	4,594,286	-
- other financial assets	5.7.d)	75,171	67,046	-	42,741	38,915	-
Available-for-sale financial assets (IAS 39)	5.5.a)	-	-	2,276,493	-	-	1,777,762
Loans and advances (IAS 39)			-			-	
- debt securities		-	-	82,133	-	-	82,133
- loans and advances to banks	5.8.a)	-	-	510,107	-	-	462,322
- loans and advances to customers	5.8.b)	-	-	6,912,333	-	-	4,587,477
- other financial assets	5.8.c)	-	-	66,077	-	-	38,389
Held-to-maturity financial assets (IAS 39)	5.9.	-	-	609,712	-	-	609,712
Derivatives - hedge accounting	5.6.b)	417	1,188	1,188	417	1,188	1,188
Fair value changes of the hedged items in portfolio hedge of interest rate risk	5.6.c)	2,517	719	719	2,517	719	719
Investments in subsidiaries	5.14.a)	-	-	-	350,733	349,945	349,945
Investments in associates and joint ventures	5.14.b)	37,147	43,765	43,765	4,777	6,932	6,932
Tangible assets							
Property and equipment	5.11.	177,404	188,355	188,355	86,934	87,051	87,051
Investment property	5.12.	58,644	51,838	51,838	12,026	9,257	9,257
Intangible assets	5.13.	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	5.20.	22,847	19,745	18,603	22,234	20,318	19,758
Other assets	5.15.	70,971	93,349	93,349	10,637	8,692	8,692
Non-current assets and disposal group classified as held for sale	5.10.a)	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	5.2.b)	12,300	9,502	9,502	12,256	9,398	9,398
Financial liabilities measured at fair value through profit or loss	5.3.	4,190	5,815	635	3,981	5,166	635
Financial liabilities measured at amortised cost							
- deposits from banks and central banks	5.18.a)	26,775	40,602	40,602	48,903	72,072	72,072
- borrowings from banks and central banks	5.18.b)	258,423	279,616	279,616	244,133	260,747	260,747
- due to customers	5.18.a)	10,464,017	9,878,378	9,878,378	7,033,409	6,810,967	6,810,967
- borrowings from other customers	5.18.b)	61,844	74,286	74,286	4,128	5,726	5,726
- subordinated liabilities	5.18.c)	15,050	27,350	27,350	-	-	-
- other financial liabilities	5.18.d)	100,887	111,019	111,019	62,212	71,534	71,534
Derivatives - hedge accounting	5.6.b)	29,474	25,529	25,529	29,474	25,529	25,529
Liabilities of disposal group classified as held for sale	5.10.a)	-	440	440	-	-	-
Provisions	5.19.	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	5.20.	2,499	2,558	1,096	-	-	-
Other liabilities	5.22.	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	5.23.	200,000	200,000	200,000	200,000	200,000	200,000
Share premium	5.24.a)	871,378	871,378	871,378	871,378	871,378	871,378
Accumulated other comprehensive income	5.24.b)	7,823	24,300	26,752	15,839	24,244	25,699
Profit reserves	5.24.a)	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**

The notes are an integral part of these financial statements.

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

László Pelle
Member of the
Management Board

Archibald Kremser
Member of the
Management Board

Andreas Burkhardt
Member of the
Management Board

Blaž Brodnjak
President & CEO

Ljubljana, 26 March 2019

Statement of changes in equity

in EUR thousands

			Accumulated other comprehensive income							
NLB Group	Share capital	Share premium	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 thousands

			Accumulated other comprehensive income							
NLB Group	Share capital	Share premium	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 thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of financial assets measured at FVOCI	Accumulated other comprehensive income: 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 thousands

NLB	Share capital	Share premium	Accumulated other comprehensive income: Fair value reserve of available-for-sale financial assets (IAS 39)	Accumulated other comprehensive income: 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**

The notes are an integral part of these financial statements.

Statement of cash flows

in EUR thousands

	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 (IAS 39)	-	(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 (IAS 39)	-	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 (IAS 39)	-	(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**

The notes are an integral part of these financial statements.

Notes to the financial statements

in EUR thousands

		NLB Group		NLB	
	Notes	2018	2017	2018	2017
Cash and cash equivalents comprise:					
Cash, cash balances at central banks, and other demand deposits at banks	5.1.	1,588,819	1,256,481	795,190	570,010
Loans and advances to banks with original maturity up to 3 months		72,170	148,784	29,147	92,409
Financial assets measured at fair value through other comprehensive income with original maturity up to 3 months		68,104	-	-	-
Available for sale financial assets with original maturity up to 3 months (IAS 39)		-	70,449	-	-
Total		**1,729,093**	**1,475,714**	**824,337**	**662,419**

1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: 'NLB') is a joint-stock entity providing universal banking services. NLB Group consists of NLB and its subsidiaries located in nine countries. Information on the NLB Group's structure is disclosed in note 5.14. Information on other related party relationships of NLB Group is provided in note 8.

NLB is incorporated and domiciled in Slovenia. The address of its registered office is Trg Republike 2, Ljubljana. NLB's shares are listed on the Ljubljana Stock Exchange, and the global depositary receipts ('GDR') representing shares are listed on the London Stock Exchange. Five GDR represent one share of NLB.

As at 31 December 2018 the largest shareholder of NLB with significant influence is the Republic of Slovenia, owning 35.00% of the shares. As at 31 December 2017 the Republic of Slovenia was the ultimate controlling party of NLB and was the sole shareholder.

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

2. Summary of significant accounting policies

The principal accounting policies adopted for the preparation of the separate and consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, except for changes in accounting policies resulting from application of new standards or changes to standards.

2.1. Statement of compliance

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

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

2.2. Basis for presenting the financial statements

The financial statements have been prepared on a going-concern basis, under the historical cost convention as modified by the revaluation of available-for-sale financial assets (IAS 39), financial assets measured at fair value through other comprehensive income (IFRS 9) and financial assets, and the financial liabilities at fair value through profit or loss, including all derivative contracts and investment property.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting estimates and judgements in applying accounting policies are disclosed in note 2.33.

2.3. Comparative amounts

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

Compared to the presentation of the financial statements for the year ended 31 December 2017, the schemes for presentation of the Income Statement and Statement of Financial Position changed due to implementation of IFRS 9, and due to changed schemes prescribed by the Bank of Slovenia. Since comparative figures have not been restated on the transition to IFRS 9, the presentation of financial statements in these financial statements is a combination of classification and measurement categories as required by IAS 39 (for balances as at 31 December 2017 and effects for 2017), and classification and measurements categories as required by IFRS 9 (for balances as at 1 January 2018 and 31 December 2018, and effects for 2018). Due to the implementation of IFRS 9, also IAS 1 changed and requires "interest revenue calculated using the effective interest method" to be shown separately. Comparative amounts in the Income statement have been adjusted to reflect this change.

Changes of the schemes prescribed by the Bank of Slovenia relate to presentation of effects related to investments in subsidiaries, associates, and joint ventures in the Income Statements. Comparative amounts have been adjusted to reflect these changes in presentation.

in EUR thousands

	NLB Group			NLB		
	2017			2017		
	old presentation	current presentation	change	old presentation	current presentation	change
Dividend income	179	179	-	50	58,062	58,012
Gains less losses from capital investment in subsidiaries, associates and joint ventures	3,852	-	(3,852)	58,171	-	(58,171)
Share of profit from investment in associates and joint ventures (accounted for using the equity method)	-	4,782	4,782	-	-	-
Gains less losses from non-current assets held for sale	(1,756)	(2,686)	(930)	451	610	159

More specifically, in the Income Statement for the year ended 31 December 2017, the line 'Gains less losses from capital investments in subsidiaries, associates, and joint ventures' included dividends and effects from the sale of investments in subsidiaries, associates, and joint ventures, and effects from the equity method from investments in associates and joint ventures. In these financial statements the dividends from subsidiaries, associates, and joint ventures are included in the line 'Dividend income,' and the effects from sale of investments in subsidiaries, associates, and joint ventures are included in the line 'Net gain or losses from non-current assets held for sale.'

In 2018, the presentation of liabilities for unused annual leave changed. More specifically, in the Income Statement for 2018 and 2017, the presentation of liabilities for unused annual leave stayed within the line 'Administrative expenses,' but the breakdown in note 4.10. changed. For 2017, liabilities were included within 'Other employee benefits,' and for 2018 they are included within 'Gross salaries, compensations, and other short-term benefits.' In the Statement of Financial Position for the year ended 31 December 2017 liabilities for unused annual leave were included in the line 'Provisions,' and for the year ended 31 December 2018 in the line 'Other financial liabilities' (31 December 2017: NLB Group: EUR 3,613 thousand, NLB: EUR 2,312 thousand).

2.4. Consolidation

In the consolidated financial statements, subsidiaries which are directly or indirectly controlled by NLB have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to NLB Group.

NLB controls an entity when all three elements of control are met:

- it has power over the entity;
- it is exposed or has rights to variable returns from its involvement with the entity; and
- it has the ability to use its power over the entity to affect the amount of the entity's returns.

NLB reassesses whether it controls an entity if facts and circumstances indicate there are changes to one or more of the three elements of control. If the loss of control of a subsidiary occurs, the subsidiary is no longer consolidated from the date that the control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by NLB. The financial statements of consolidated subsidiaries are prepared as at the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results, and of the equity of a subsidiary, attributable to interests which NLB does not own, directly or indirectly. NLB Group measures non-controlling interest on a transaction-by-transaction basis, either at fair value, or by the non-controlling interest's proportionate share of net assets of the acquiree.

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

NLB Group treats transactions with non-controlling interests as transactions with equity owners of NLB Group. For purchases of subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from the equity. Gains or losses on sales to non-controlling interests are recorded in the equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in the equity. All effects are presented in the item 'Equity Attributable to Non-controlling Interest.'

2.5. Investments in subsidiaries, associates, and joint ventures

In the separate financial statements, investments in subsidiaries, associates, and joint ventures are accounted for with the cost method. Dividends from subsidiaries, joint ventures, or associates are recognised in the income statement when NLB's right to receive the dividend has been established.

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

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

NLB Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When NLB Group's share of losses in an associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.14.b).

NLB Group's subsidiaries, associates, and joint ventures are presented in note 5.14.

2.6. Goodwill and bargain purchases

Goodwill is measured as the excess of the aggregate of the consideration measured at fair value and transferred to the acquiree, the amount of any non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date over the net amounts of the identifiable assets acquired, as well as the liabilities assumed. Any negative amount, a gain on a bargain purchase, is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred is measured at the fair value of the assets transferred, equity interest issued, and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements. However, this excludes acquisition-related costs such as advisory, legal, valuation, and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from the equity, and all other transaction costs associated with the acquisition are expensed.

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

2.7. A combination of entities or businesses under common control

A merger of entities within NLB Group is a business combination involving entities under common control. For such mergers, members of NLB Group apply merger accounting principles, and use the carrying amounts of merged entities as reported in the consolidated financial statements. No goodwill is recognised on mergers of NLB Group entities.

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

2.8. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Translation differences resulting from changes in the amortised cost of monetary items denominated in foreign currency and classified as available-for-sale financial assets (IAS 39) or financial assets, measured at fair value through other comprehensive income (IFRS 9) are recognised in the income statement.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items, such as equities classified as available for sale (IAS 39) or financial assets, measured at fair value through other comprehensive income (IFRS 9), are included together with valuation reserves in the valuation (losses)/gains taken to other comprehensive income and accumulated in the equity.

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

NLB Group entities

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate on the reporting date;
- income and expenses for each income statement are translated at average exchange rates; and

- components of equity are translated at the historical rate.

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

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

2.9. Interest income and expenses

Interest income and expenses for all financial instruments measured at amortised cost, available-for –sale financial assets (IAS 39) and financial assets measures at fair value through other comprehensive income (IFRS 9) are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate. The effective interest rate method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) on the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed-yield investments and trading securities, and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs, but excludes future credit risk losses.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3,' interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, interest income is again calculated on a gross basis.

2.10. Fee and commission income

Fees and commissions are generally recognised when the service has been provided. Fees and commissions mainly consist of fees received from credit cards and ATMs, customer transaction accounts, payment services, investment funds, and commissions from guarantees. Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.11. Dividend income

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

2.12. Financial instruments

NLB Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial instruments, and impairment of financial assets.

a) Classification and measurement under IFRS 9

From a classification and measurement perspective, IFRS 9 requires all debt financial assets to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets have been replaced by:

- Financial assets, measured at amortised costs (AC);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets held for trading (FVTPL); and
- Non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ('held to collect'), and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ('held to collect and sell'), and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Gains and losses, except for expected credit losses and foreign currency translations, are recognised in other comprehensive income until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement.

All other financial assets are mandatorily measured at FVTPL, including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Like IAS 39, IFRS 9 includes an option to designate financial assets at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

The accounting for financial liabilities remained broadly the same as the requirements of IAS 39, except for the treatment of gains or losses arising from bank's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

NLB Group and NLB elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting requirements in accordance with IAS 39. However, the Bank implemented the revised hedge accounting disclosures that are required by the IFRS 9 related amendments to IFRS 7 'Financial Instruments: Disclosures' in the 2018 Annual Report. Embedded derivatives are under IFRS 9 no longer separated from the host's financial assets. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Assessment of NLB Group's business model

NLB Group has determined its business model separately for each reporting unit within the NLB Group and is based on observable factors for different portfolios that best reflects how the Group manages groups of financial assets to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;
- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows); and
- the expected frequency, value, and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking worst-case and stress case scenarios into account. In general, the business model assessment of the Group can be summarised as follows:

- loans and deposits given are included in a business model 'held to collect' since the primary purpose of NLB Group for the loan portfolio is to collect the contractual cash flows.
- debt securities are divided into three business models:
  - the first group of debt securities presents 'held for trading' category
  - the second group of debt securities are held under a business model 'held to collect and sale' with the aim to collect the contractual cash flows and sale of financial assets, and forms part of the Group's liquidity reserves;
  - the third part of debt securities is held within the business model for holding them in order to collect contractual cash flows.

With regard to debt securities within the 'held to collect' business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales in order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model and;

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

A review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being 'held to collect' and 'held to collect and sell' relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVTPL.

NLB Group reviewed the portfolio within 'held to collect' and 'held to collect and sale' for standardised products on a level of a product and for non-standardised products on a single exposure level. The Group established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of the loan agreements.

Accounting policy for modified financial assets

When contractual cash flows of a financial asset are modified, NLB Group assesses if the terms and conditions have been modified to the extent that, substantially, it becomes a new financial asset. The following factors are, amongst others, considered when making such assessment:

- reason for modification of cash flows (commercial or client's financial difficulties);
- change in currency of the loan;
- introduction of an equity feature;
- replacement of initially agreed debtor with a new debtor that is not related party to initial debtor; and
- if the modification is such that it changes the result of the SPPI test.

If the modification results in derecognition of a financial asset, the new financial asset is initially recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, NLB Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

b) Classification and measurement under IAS 39

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

Financial instruments at fair value through profit or loss

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

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

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

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

Loans and advances

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

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments that are traded on an active market with fixed or determinable payments and a fixed maturity that NLB Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity financial asset if NLB Group has the right to require the issuer to repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity.

Available-for-sale financial assets

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

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

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

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

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Gains and losses from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative amount previously included in other comprehensive income is recycled in the income statement. Interest calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

Loans and held-to-maturity financial assets are carried at an amortised cost.

c) Reclassification under IFRS 9

Financial assets can be reclassified when and only when NLB Group's business model for managing those assets changes. The reclassification takes place from the start of the reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period. Financial liabilities shall not be reclassified.

d) Reclassification under IAS 39

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

e) Day one gains or losses

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

If the transaction price on a non-active market is different than the fair value from other observable current market transactions in the same instrument, or is based on a valuation technique whose variables only include data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement ('day one gains or losses').

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

f) Derecognition

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

g) Write-offs

NLB Group writes off financial assets in their entirety or a portion thereof when it has exhausted all practical recovery efforts and has no reasonable expectations of recovery. Criteria indicating that that there is no reasonable expectation of recovery include default period, quality of collateral and different stages of enforcement procedures. NLB Group may write-off financial assets that are still subject to enforcement activities but this does not affect its rights in the enforcements procedures. NLB still seeks to recover all amounts it is legally entitled to in full. Write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense. Write-offs and recoveries are disclosed in note 5.16.a).

h) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the price that would be received to sell the assets or transfer liability (exit price) being measured at the reporting date, excluding transaction costs. If there is no active market, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

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

i) Derivative financial instruments and hedge accounting

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

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

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

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

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

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in the fair value of hedging instruments and related hedged items are reflected in 'Fair value adjustments in Hedge Accounting' in the income statement. Any ineffectiveness from derivatives is recorded in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.'

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

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is immediately recognised in the income statement.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity, and is recognised in profit or loss only when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Hedge of a net investment in a foreign operation
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement in 'Gains Less Losses on Financial Assets and Liabilities Held for Trading.' Gains and losses accumulated in other comprehensive income are included in the consolidated income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

2.13. Impairment of financial assets

a) Expected credit losses for collective allowances based on IFRS 9

IFRS 9 applies an expected credit loss model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The expected loss model requires NLB Group to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since the initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since the initial recognition, NLB Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on NLB Group's historical data, experience, expert credit assessment, and incorporation of forward-looking information.

Classification into stages
NLB Group prepared a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, risk indicators calculation, and the validation of models. The Group classifies financial instruments into Stage 1, Stage 2, and Stage 3, based on the applied ECL allowance methodology as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since the initial recognition, NLB Group recognises an allowance based on 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since the initial recognition, NLB Group recognises an allowance for lifetime period, and
- Stage 3 – impaired portfolio: NLB Group recognises lifetime allowances for these defaulted financial assets. The bank uses a unified definition of past due and default exposures that is aligned with Article 178. of Regulation EU575/2013. Defaulted clients are rated D, DF, or E based on the bank's internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay. The retail clients are rated on the facility level, however the rating can be deteriorated based on the rating of other credit facilities of the same client.

A significant increase in credit risk is assumed:

- when a credit rating significantly deteriorates at the reporting date, in comparison to the credit rating at initial recognition,
- when a financial asset has material delays over 30 days (days-past due are also included in the credit rating assessment),
- if NLB Group grants the forbearance to the borrower, or
- if the facility is placed on the watch list.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology of NLB Group.

ECL for Stage 1 financial assets is calculated based on 12-month PDs (probability of default) or shorter period PDs, if the maturity of the financial asset is shorter than 1 year. The 12-month PD already includes a macroeconomic impact effect. Allowances in stage 1 are designed to reflect expected credit losses that had been incurred in the performing portfolio, but have not been identified.

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. This calculation is also based on a forward-looking assessment that takes into account the number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts.

For financial instruments in Stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowances using PD of 100%. Financial instruments will be transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the lifetime expected losses since initial recognition are recognised as a loss allowance.

The calculation of collective allowances is performed by multiplying the EAD (exposure at default) at the end of each month with an appropriate PD and LGD (loss-given default). The EAD is determined as the sum of on-balance exposure and off-balance exposure multiplied by the CCF (credit conversion factor). The obtained result for each month is discounted to the present time. For Stage 1 exposures, the ECL only takes a 12-month period into account, while for Stage 2 all potential losses until the maturity date are included.

For the purpose of estimating the LGD parameter, NLB uses collateral HC (haircut) at the level of each type of collateral, and URR (unsecured recovery rate) at the level of each client segment. Both parameters are calculated on the bank's historical repayment data.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward looking information

The Group incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Group considers forward-looking information such as macroeconomic factors (e.g., unemployment rate, GDP growth, interest rates, and housing prices) and economic forecasts. The baseline scenario represents the more likely outcome resulting from the Group's normal budgeting process, while the better and worst case scenarios represent more optimistic or pessimistic outcomes (similar as by ICAAP).

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts.

b) Individual assessment of allowances for impaired financial assets based on IFRS 9

Assets carried at an amortised cost

NLB Group assesses the impairments of financial assets separately for all individually significant assets classified in Stage 3. All other financial assets obtain collective allowances. The materiality threshold is set at EUR 0.5 million exposure for legal entities and EUR 0.1 million for private persons on the level of NLB, while the Group members apply lower thresholds applicable to their portfolio size.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date. The scenario of expected cash flows can be based on the 'going concern' assumption, where the cash flow from operations is taken into account along with the sale of collateral that is not crucial for future business. In the case of the 'gone concern' principle, the repayments are based on expected cash flows from the collateral sale. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut used as defined in the Haircut Methodology, and discounted. Off-balance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.

The carrying amount financial assets measured at amortised cost is reduced through an allowance account and the loss is recognised in the income statement item

'Impairment of financial assets.' If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account and gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position in item 'Provisions' and in the income statement in item 'Provisions for credit losses.'

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment and the gain is recognised in the income statement.

c) Impairment of financial assets IAS 39

Assets carried at an amortised cost

NLB Group assesses impairments of financial assets separately for all individually significant assets where there is objective evidence of impairment. All other financial assets are impaired collectively. According to the Regulation on credit risk loss assessment of the Bank of Slovenia, a financial asset or off-balance sheet liability is individually significant if the total exposure to a customer exceeds 0.5% of a bank's equity. In 2017, all exposures to banks, all exposures to other legal entities exceeding EUR 500 thousand, and all exposures to individuals exceeding EUR 100 thousand were deemed individually significant assets requiring individual assessment. If NLB Group determines that no objective evidence exists for an individually assessed financial asset, the asset is included in a group of related financial assets with similar credit risk characteristics and collectively assessed for impairment.

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

The criteria NLB Group uses to determine whether objective evidence of an impairment loss exists include:

- delays in the payment of contractual interest or principal;
- a breach of other contractual covenants or conditions;
- difficulties in the financial condition of the borrower;
- restructuring of a borrower's financial liabilities, whereby a material loss is recognised;
- initiation of bankruptcy or insolvency proceedings; and
- other arrangements having an adverse effect on the bank's or company's position.

If there is objective evidence that an impairment loss on loans and advances or held-to-maturity financial assets has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the loss is recognised in the income statement. With regard to impairments for customers in default, where the payment of existing liabilities is only possible through the redemption of collateral, the expected payment from the collateral is taken into account. This value is calculated from the appraised market value of the collateral, and the discount used as defined in the Collateral Manual. Off-balance sheet liabilities are also assessed individually and, where necessary, related provisions are recognised as liabilities.

For the purpose of the collective assessment of impairment, NLB Group uses transition matrices which illustrate the expected transition of customers between internal rating categories. The probability of transition is assessed on the basis of the past years' experience, i.e. the annual transition matrices for different types or segments of customers. This data may be adopted for projected future trends, as historical experience does not necessarily reflect actual economic movements. Exposures to individuals are further analysed with regard to the type of product. Based on the expected transition of customers to D and E credit-rating categories, and an assessment of the average repayment rate for D- and E-rated customers (treated as customers in default), NLB Group recognises collective impairments.

If the amount of impairment decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment.

NLB Group writes off financial assets measured at amortised cost if during the collection process it assesses that the assets in question will not be repaid, and that the conditions for derecognition have been met.

Assets classified as available for sale

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

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

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

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

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

2.14. Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract (refinancing) under which the contracting parties agree the partial or total repayment of the original debt. If receivables due from the client have the status of restructuring, the debtor must be classified in the rating group C, D, or E.

The definitions of forborne loans closely follow definitions that were developed by the European Banking Authority (EBA). These definitions aim to achieve comprehensive coverage of exposures to which forbearance measures have been extended.

Accounting treatment of forborne loans depends on the type of restructuring. When NLB Group is embarking on a forborne loan via modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest, and/or a forbearance of the repayment of the principal, and/or interest or a reduction in the interest rate, and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, NLB Group derecognises the claim in the part relating to the write-down or the contractually agreed debt waiver. The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the probability of loss. NLB Group takes into account the debtor's modified position, the economic expectations, and the collateral of the forborne loan. When NLB Group is embarking on the forborne loan by taking possession of other assets (property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the disclosed fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if forbearance does not lead to a recognition of impairment or non-performance, if one year has passed since the forbearance has been introduced and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- an analysis of the debtor's financial position shows that the conditions to deem the exposure a non-performing exposure are no longer met;
- at least a 2-year probation period has passed since the forborne exposure was deemed performing;
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period; and
- no exposure to the debtor is more than 30 days in default at the end of the probation period.

2.15. Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are initially recognised in the financial statements at their fair value and classified in the appropriate category according to their purpose, and are sold as soon as is practical in order to reduce exposure (note 6.1.s). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories. Repossessed assets mainly represent items of real estate that NLB Group classifies within investment properties measured in accordance with IAS 40 Investment property (note 2.20), and other assets measured in accordance with IAS 2 Inventories.

Real estate obtained from the foreclosure of loans and receivables within other assets are initially recognised at fair value less costs to sell (realisable value), wherein only the direct costs of sales can be taken into account. At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate are performed by certified real estate appraisers. The real estate is impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as the impairment of other assets and the reversal of impairment as income from the reversal of the impairment of other assets.

2.16. Offsetting

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

2.17. Sale and repurchase agreements

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

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

2.18. Property and equipment

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

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

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

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

NLB Group and NLB	in %
Buildings	2 - 5
Leasehold improvements	5 - 25
Computers	14.3 - 50
Furniture and equipment	10 - 33.3
Motor vehicles	12.5 - 25

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

The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount, and are recognised in the income statement.

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

2.19. Intangible assets

Intangible assets include software licenses and goodwill (note 2.6.). Intangible assets are stated at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at rates designed to write-down the cost of an intangible asset over its estimated useful life. The core banking system is amortised over a period of 10 years, and other software over a period of three to five years. Amortisation does not begin until the assets are available for use.

2.20. Investment properties

Investment properties include buildings held for leasing and not occupied by NLB Group, or to increase the value of a long-term investment. Investment properties are stated at fair value determined by a certified appraiser. Fair value is based on current market prices. Any gain or loss arising from a change in the fair value is recognised in the income statement.

2.21. Non-current assets and disposal groups classified as held for sale

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

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

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

2.22. Accounting for leases

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

NLB Group as a lessee

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

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

NLB Group as a lessor

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

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

Sale-and-leaseback transactions

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

2.23. Cash and cash equivalents

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

2.24. Borrowings, deposits and issued debt securities with characteristics of debt

Loans and deposits received and issued debt securities are initially recognised at fair value, which is typically equal to historical cost less transaction costs. Borrowings are subsequently measured at the amortised cost. The difference between the value at initial recognition and the final value is recognised in the income statement as interest expense, applying the effective interest rate.

Repurchased own debt is disclosed as a reduction in liabilities in the statement of financial position. The difference between the book value and the price at which own debt was repurchased is disclosed in the income statement.

2.25. Other issued financial instruments with characteristics of equity

Upon initial recognition, other issued financial instruments are classified in part or in full as equity instruments if the contractual characteristics of the instruments are such that NLB Group must classify them as equity instruments in accordance with IAS 32 Financial Instruments: Disclosure and Presentation.

An issued financial instrument is only considered an equity instrument if that instrument does not represent a contractual obligation for payment.

Issued financial instruments with characteristics of equity are recognised in equity in the statement of financial position. Transaction costs incurred for issuing such instruments are deducted from equity reserves. The corresponding interest is recognised directly in profit reserves.

The carrying value of an issued financial instrument with characteristics of equity is presented in the statement of changes in equity in the item 'Other Equity Instruments.'

2.26. Provisions

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

2.27. Contingent liabilities and commitments

Financial and non-financial guarantees

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

The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract.

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

- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or
- under IFRS 9 – an ECL provision as set out in note 2.13.

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent undrawn loan commitments to extend credit, uncovered letters of credit, and other commitments.

The nominal contractual value of guarantees, letters of credit, and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

2.28. Taxes

Income tax expense comprises current and deferred income tax.

Current corporate income tax in NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2018 in Slovenia was 19% (2017: 19%).

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

Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments (IAS 39), financial assets measured at fair value through other comprehensive income (IFRS 9), cash flow hedges, and actuarial gains and losses on defined benefit pension plans is charged or credited directly to other comprehensive income.

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

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

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

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered (financial services, exempt from value added tax (with the exception of securities transactions) and the services of insurance brokers and agents), is paid in Slovenia. A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered, is paid in Slovenia. The tax rate is 8.5% (2017: 8.5%) and the tax is paid monthly. Given that the tax on financial services is classified as a sales tax, it reduces accrued revenues in the financial statements.

2.29. Fiduciary activities

NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in NLB Group's financial statements as they do not represent assets of NLB Group. Fee and commission income and expenses relating fiduciary activities are generally recognised in the income statement when the service has been provided. Fee and commission income charged for this type of service is broken down by items in note 4.3.b. Further details on transactions managed on behalf of third parties are disclosed in note 5.27.

Based on the requirements of Slovenian legislation, NLB Group has additionally disclosed in note 5.27. assets and liabilities on accounts used to manage financial assets from fiduciary activities, i.e. information related to the receipt, processing, and execution of orders and related custody activities.

2.30. Employee benefits

Employee benefits include:

- short-term employee benefits (such as salaries, social security contributions, compensations and non-monetary benefits);
- retirement indemnity bonuses (post-employment benefits); and
- jubilee long-service benefits (other employment benefits).

Short-term employee benefits are recognised in the period to which they relate and included in the income statement line 'Administrative expenses.' Among others they include the payment of contributions for pension and disability insurance, which according to local legislation (for employer) amount to 8.85% of the gross salaries.

According to legislation, employees retire after 35-40 years of service when, if they fulfill certain conditions, they are entitled to a lump-sum severance payment. Employees are also entitled to a long-service bonus for every 10 years of service in NLB.

These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on benefit plan terms and conditions.

Service costs are included in the income statement in the item 'Administrative expenses' as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item 'Interest and similar expenses.' These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. For post-employment benefits, actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item 'Actuarial Gains/(Losses) on Defined Benefit Pensions Plans,' and will not be recycled to the income statement. Actuarial gains and losses that relate to other employment benefits are recognised in the income statement as defined benefit costs.

2.31. Share capital

Dividends on ordinary shares

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

Treasury shares

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

Share issue costs

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

2.32. Segment reporting

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

Transactions between organisational units (OU) are managed under normal operating conditions. Interest income among individual OU in the parent bank (NLB) is allocated using a fund transfer pricing method and shown within the net interest income of each OU. Net non-interest income is allocated to the OU that actually provide the service that generates income. Direct costs are attributed to the segment that is directly related to the provided service and indirect costs (costs which service centres provide for profit centres) are attributed to the segment for which the service is provided, whereas overhead costs are allocated according to general keys. External net income is the net income of NLB Group from the consolidated income statement. Income tax is not allocated between segments (note 7.a).

In accordance with IFRS 8, NLB Group has the following reportable segments: Corporate Banking in Slovenia, Retail Banking in Slovenia, Financial Markets in Slovenia, Foreign Strategic Markets, Non-core Markets and Activities, and Other Activities.

2.33. Critical accounting estimates and judgments in applying accounting policies

NLB Group's financial statements are influenced by accounting policies, assumptions, estimates, and management's judgment. NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

a) Allowances for expected credit losses on loans and advances

NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary allowances for ECL. NLB Group creates individual allowances for individually significant financial assets attributed to Stage 3. Such an assignment is based on information regarding the fulfillment of contractual obligations or other financial difficulties of the debtor, and other important facts. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from the collateral.

Allowances are assessed collectively for financial assets assigned to Stage 1 or 2 or for financial assets in Stage 3 with exposure below the materiality threshold. ECL in this group of assets are estimated on the basis of expected value of risk parameters combining the historic movements with the future macroeconomic predictions. The models used to estimate future risk parameters are validated and back-tested on a regular basis in order to make loss estimations as realistic as possible.

Stress testing for credit risk predicts the impact of unfavorable macroeconomic conditions on the default rate (transfer of assets from performing to the default) and loss rates (expected losses after the occurrence of the default). The adverse macro stress scenario predicts a real economic crisis, prolonged macro-economic shock driven by an adverse environment for commercial banks. The scenario is partially based on EBA and ESRB scenarios. The scenario is anchored in the data for Euro area gross domestic product (GDP) deviations from the baseline scenario under the distressed banking sector scenario, which supposes an adverse feedback loop between weak bank profitability and low nominal growth amid structural challenges in the EU banking sector.

In terms of credit risk the described macro-economic distress results in an increase of the default rate (DR), as well as the loss rate (LR). Based on the existing exposures (static balance sheet assumption), additional allowances for expected credit losses are assessed on existing default exposures and new default flows.

The results of the stress scenario for NLB Group shows an increase of impairments by EUR 75.2 million (2017: EUR 69.5 million), and an increase in the coverage of the credit portfolio by impairments by 0.89 percentage points (2017: 0. 86 percentage points) (note 5.16).

b) Fair value of financial instruments

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

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable entities, and other frequently used valuation models. These valuation models pretty much reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date. Management reviewed all applied models as at the reporting date to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and the applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading, available-for-sale financial assets (IAS 39), and financial assets measured at fair value through other comprehensive income (IFRS 9).

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

The fair value hierarchy of financial instruments is disclosed in note 6.5.

c) Impairment of investments in subsidiaries, associates, and joint ventures

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

- Future cash flows from individual investments present the estimated cash flow for periods for which adopted plans are available. For core members, estimated cash flows are based on a five-year business plan. For non-core members, estimated cash flows are based on a period in line with the strategy of divestment. The business plans of individual entities are based on an assessment of future economic conditions that will impact an individual member's business and the quality of the credit portfolio.
- The growth rate in cash flows for the period following the adopted business plan is between 1 and 1.5%.
- The target capital adequacy ratio of an individual bank is between 13 and 17%.
- The discount rate derived from the capital asset pricing model that is used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of a range of financial and economic variables, including the risk-free rate and risk premium. The value of variables used is subject to fluctuations outside management's control. The pre-tax discount rate is between 9.66 and 15.18% (31 December 2017: between 9.66 and 19.07%).

For strategic NLB Group members in 2018 and 2017 there were no indications of impairment for equity investments.

In 2018, NLB impaired equity investments in non-core members in the amount of EUR 544 thousand.

d) Employee benefits

Liabilities for employee benefits are calculated by an independent actuary. The main assumptions included in the actuarial calculation are as follows:

	NLB Group		NLB	
	2018	2017	2018	2017
Actuarial assumptions				
Discount factor	1.01% - 5.0%	0.8% - 3.1%	1.05%	1.0%
Wage growth based on inflation, promotions, and wage growth based on past years of service	1.4% - 3.8%	1.6% - 4.0%	1.8% - 2.3%	2.5%
Other assumptions				
Number of employees eligible for benefits	5,044	5,442	2,662	2,779

Sensitivity analysis of significant actuarial assumptions for post-employment benefit

	NLB Group				NLB			
31 dec 2018	Discount rate		Future salary increases		Discount rate		Future salary increases	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions - post-employment benefits (in %)	(5.2)	5.7	5.6	(5.3)	(5.3)	5.7	5.6	(5.3)

e) Taxes

NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2018 are based on profit forecasts and take the expected manner of recovery of the assets into account, i.e. whether the value will be recovered through use, sale, or liquidation. Changes in assumptions regarding the likely manner of recovering assets can lead to the recognition of currently unrecognised deferred tax assets or derecognition of previously created deferred tax assets. NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations (notes 4.15. and 5.20.).

2.34. Implementation of the new and revised International Financial Reporting Standards

During the current year, NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: 'the IASB') and the International Financial Reporting Interpretations Committee (hereinafter: 'the IFRIC'), and that are endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2018.

Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January 2018 that were endorsed by the EU and adopted by NLB Group

- IFRS 9 (new standard) - 'Financial Instruments' is effective for annual periods beginning on or after 1 January 2018. In July 2014, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a new approach to financial instruments classification and measurement, a new more forward-looking expected loss model, and amends the requirements for hedge accounting.

In accordance with the transition requirements of IFRS 9, comparative figures have not been restated. An adjustment arising from the adoption to IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Due to the transition to IFRS 9 requirements, share-holders equity on NLB Group increased for EUR 43.8 million and EUR 27.7 million for NLB (note 2.35.). The Tier 1 capital ratio for NLB Group has increased by 0.4 percentage points. NLB Group did not applied transitional arrangements at the transition to the expected credit loss model in accordance with Regulation (EU) 2017/2395.

- IFRS 15 (new standard) – 'Revenue from Contracts with Customers' is effective for annual periods beginning on or after 1 January 2018. IFRS 15 replaces all existing revenue requirements in the IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services), and applies to all revenue arising from contracts with customers. The standard specifies in the principles that an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. There is no impact on NLB Group's consolidated financial statements.

- IFRS 15 (amendment) – 'Clarifications to Revenue from Contracts with Customers' are effective for annual periods beginning on or after 1 January 2018. The amendments to the Revenue Standard do not change the underlying principles of the Standard, but clarify how those principles should be applied. They also clarify how to identify a performance obligation in a contract, determine whether a company is a principal, and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional relief options to reduce the cost and complexity for a company when it first applies the new Standard. There is no impact on NLB Group's consolidated financial statements.

- IFRS 4 (amendment) – 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' is effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new replacement Standard IFRS 4. The amendments introduce two approaches: an overlay approach and a temporary exemption from applying IFRS 9. There is no impact on NLB Group's consolidated financial statements, since IFRS 9 is already fully adopted.

- IFRS 2 (amendment) – 'Classification and Measurement of Share-based Payment Transactions' is effective for annual periods beginning on or after 1 January 2018. The amendments clarify how to account for certain types of share-based payment transactions. They provide requirements that address three main areas: the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transactions changes its classification from cash-settled to equity-settled. NLB Group does not have share-based payments transactions.

- 'Annual Improvements to IFRS's 2014–2016 Cycle.' The improvements are minor amendments that clarify, correct, or remove redundant wording in Standards. The amendments refer to three Standards: IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2017, and IFRS 1 First-time Adoption of International Financial Reporting Standards, and IAS 28 Investments in Associates and Joint Ventures effective for annual periods beginning on or after 1 January 2018.

- IAS 40 (amendment) – 'Transfers of Investment Property' is effective for annual periods beginning on or after 1 January 2018. The amendments clarify the requirements on transfers to, or from, investment property. An entity shall transfer a property to, or from, an investment property when, and only when, there is evidence of a change in use. A change of use occurs if the property meets, or ceases to meet, the definition of an 'investment property.' A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Currently, the amendment has no impact on NLB Group's consolidated financial statements.

- The 'IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration' is effective for annual periods beginning on or after 1 January 2018. The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense, or income. It does not apply when an entity measures the related asset, expense, or income on initial recognition at fair value. Currently, the interpretation has no impact on NLB Group's consolidated financial statements.

Accounting standards and amendments to existing standards that were endorsed by the EU, but not adopted early by NLB Group

- IFRS 16 (new standard) – Leases is effective for annual reporting periods beginning on or after 1 January 2019. It replaces the old lease accounting standard IAS 17 Leases. IFRS 16 establishes principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognise most leases in their financial statements, moreover it introduces a single accounting model for all leases (similar to the accounting for finance leases under IAS 17), with certain exemptions ("low value" assets and short-term leases). At the commencement date of a lease, a lessee shall recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of lease liability, adjusted for any payments made at or before the commencement date, any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee at the end of lease term. The value of lease liability is calculated as the net present value of future lease payments.

  The term 'Lessor Accounting' under IFRS 16 is substantially unchanged from today's accounting under IAS 17.

  NLB Group has identified contracts that meet the definition of a lease in accordance with the IFRS 16 requirements. The most significant types of leases are leases of business premises, followed by the leases of vehicles and a small number of parking spaces. One of the most important assumptions for calculation of the net present value was the lease term signed for an indefinite period. For these NLB Group assumed 5-year lease term with the exemption of business premises on strategic locations where management assessed a different (longer) lease term. Another important assumption for the calculation of the net present value of the future lease payments was the discount rate where NLB Group applied the internal transfer price for retail deposits.

  At the transition to IFRS 16 NLB Group chose modified retrospective approach, where right-of-use assets are measured as an amount equal to the lease liability. Adoption of the IFRS 16 requirements did not have material impact on the consolidated financial statements of NLB Group as at 1 January 2019. More specifically, due to a recognition of the right-of-use assets and lease liabilities the consolidated assets and liabilities increased by EUR 19.0 million (NLB: EUR 2.6 million). The impact on the regulatory equity is immaterial.

- IFRS 9 (amendment) – In October 2017, the IASB issued the Amendment to IFRS 9: Prepayment Features with Negative Compensation that are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The amendment allows certain pre-payable financial assets with a negative compensation prepayment option to be measured at an amortized cost or fair value through other comprehensive income, if the prepayment amount substantially represents the reasonable compensation and unpaid principal and interest. Reasonable compensation may be positive or negative. Prior to this amendment financial assets with this negative compensation feature would have failed the exclusive payments of principal and interest test and be mandatorily measured at fair value through profit or loss. This amendment will not impact the NLB Group's financial statements.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments is effective for annual periods beginning on or after 1 January 2019. The Interpretation addresses the accounting for income tax when it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statements

Accounting standards and amendments to existing standards, but not endorsed by the EU

- IFRS 17 (new standard) – Insurance Contracts is effective for annual periods beginning on or after 1 January 2021. The new standard provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts, and requires insurance contracts to be measured using current fulfillment cash flows, and for revenue to be recognised as the service is provided over the coverage period. The Group will assess the impact of adopting this new standard.

- IAS 28 (amendment) – Long-term Interests in Associates and Joint Ventures is effective for annual periods beginning on or after 1 January 2019. The amendment clarifies that IFRS 9 Financial Instruments applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, but to which the equity method is not applied. NLB Group does not expect an impact on its consolidated financial statements.

- Annual Improvements to IFRSs 2015-2017 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2019. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. NLB Group is evaluating the impact of the amendments on NLB Group's consolidated financial statement

- IAS 19 (amendment) – Plan Amendment, Curtailment, or Settlement is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, if disclosed. It clarifies the accounting when a plan amendment, curtailment, or settlement occurs. Entities are thus required to use updated assumptions to determine the current service cost and the net interest for the period after the remeasurement. Moreover, amendments have been included to clarify the effect of a plan amendment, curtailment, or settlement on the requirements regarding the asset ceiling. The amendment will not impact NLB Group's consolidated financial statements.

- Amendments to References to the Conceptual Framework in IFRS Standards are effective for annual periods beginning on or after 1 January 2020. Amendments were issued to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction.

- IFRS 3 (amendment) - Business Combinations is effective for annual periods beginning on or after 1 January 2020. It aims to resolve entities' difficulties which arise when determining whether they have acquired a business or a group of assets. Among others, the Amendment clarifies and narrows the definitions of a business and of outputs, provides additional guidance and illustrative examples. NLB Group does not expect an impact on its consolidated financial statements.

- IAS 1 and IAS 8 (amendments) - Definition of Material are effective for annual periods beginning on or after 1 January 2020 (with earlier application permitted) and relate to a revised definition of 'material,' namely: "Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." Three new aspects of the new definition are particularly emphasised and defined – "obscuring," "could reasonably be expected to influence," and "primary users." The new definition of material and the accompanying explanatory paragraphs are contained in IAS 1 Presentation of Financial Statements. The definition of material in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been replaced with a reference to IAS 1, thus the Amendments ensure that the definition of 'material' is consistent across all IFRS Standards. NLB Group does not expect an impact on its consolidated financial statements.

- IFRS 10 and IAS 28 (amendment) – The IASB has deferred the effective dates of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture amendments indefinitely. The amendments address a conflict between the requirements of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. NLB Group does not expect an impact on its consolidated financial statements.

2.35. Presentation of effects at transition to IFRS 9 as at 1 January 2018

Based on the presented business model, the contractual cash flow characteristics of debt instruments and implementation of the expected credit loss model, and the comparison between IAS 39 and IFRS 9 measurements categories at which NLB Group recognised the effects at the transition to IFRS 9 as at 1 January 2018 are presented below:

in EUR thousands

	NLB Group	NLB
Impact on equity due to transition to IFRS 9 - details		
Changed methodology for impairments and provisions	58,160	37,319
Remeasurement of loans to fair value	36	(687)
Recognition of modification loss	(1,049)	(1,049)
Reclassification and remeasurement of securities	(7,504)	(5,267)
Income tax on transition	(3,529)	(2,650)
Total impact	**46,114**	**27,666**
Minority share	(2,281)	-
Total impact attributable to the owners of the parent	**43,833**	**27,666**

The following table shows the original measurement categories in accordance with IAS 39, and the new measurement categories under IFRS 9 for the financial assets as at 1 January 2018.

in EUR thousands

			NLB Group		NLB	
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets - 1 January 2018						
Cash, cash balances at central banks, and other demand deposits at banks	Loans and receivables	Amortised cost	1,256,481	1,255,824	570,010	569,943
Loans and advances - debt securities	Loans and receivables	Amortised cost	82,133	79,880	82,133	79,880
Loans and advances to banks	Loans and receivables	Amortised cost	510,107	509,970	462,322	461,830
Loans and advances to customers	Loans and receivables	Amortised cost	6,887,300	6,956,362	4,556,105	4,594,286
Loans and advances to customers	Loans and receivables	FVTPL mandatory	25,033	24,649	31,372	30,055
Loans and advances - other financial assets	Loans and receivables	Amortised cost	66,077	67,046	38,389	38,915
Trading assets	FVTPL	FVTPL	72,189	72,189	72,180	72,180
Financial assets designated at fair value through profit or loss	FVTPL designated	FVTPL mandatory	5,003	5,003	634	634
Available-for-sale financial assets - debt instruments	AFS	FVOCI	1,604,940	1,604,940	1,238,977	1,238,977
Available-for-sale financial assets - debt instruments	AFS	Amortised cost	618,376	612,317	491,936	488,992
Available-for-sale financial assets - shares	AFS	FVTPL mandatory	3,261	3,261	2,059	2,059
Available-for-sale financial assets - shares	AFS	FVOCI designated	49,916	49,916	44,790	44,790
Held-to-maturity financila assets	HTM	Amortised cost	609,712	609,216	609,712	609,216
Total			**11,790,528**	**11,850,573**	**8,200,619**	**8,231,757**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

in EUR thousands

NLB Group	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Amortised Cost					
Cash, cash balances at central banks, and other demand deposits at banks					
Opening balance		1,256,481			
Remeasurement: ECL allowance				(657)	
Closing balance					1,255,824
Loans and advances to banks					
Opening balance		510,107			
Remeasurement: ECL allowance				(137)	
Closing balance					509,970
Loans and advances to customers					
Opening balance		6,912,333			
Subtraction: to financial assets FVTPL (mandatory)	(A)		(25,033)		
Remeasurement: ECL allowance				76,471	
Remeasurement: modifications				(7,409)	
Closing balance					6,956,362
Other financial assets					
Opening balance		66,077			
Remeasurement: ECL allowance				838	
Remeasurement: other adjustments				131	
Closing balance					67,046
Debt securities					
Opening balance		82,133			
Addition: from financial assets available-for-sale	(B)		618,376		
Addition: from financial assets held-to-maturity	(C)		609,712		
Remeasurement: from fair value to amortised cost				(4,476)	
Remeasurement: ECL allowance				(2,096)	
Remeasurement: reclassified bonds	(D)			(2,236)	
Closing balance					1,301,413
Held-to-maturity investments					
Opening balance		609,712			
Subtraction: to debt securities - amortised cost	(C)		(609,712)		
Closing balance					-
Total financial assets measured at amortised cost		**9,436,843**			**10,090,615**

in EUR thousands

NLB Group	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Fair value through other comprehensive income (FVOCI)					
Financial assets available-for-sale					
Opening balance		2,276,493			
Subtraction: to FVOCI - debt instruments	(E)		(1,604,940)		
Subtraction: to FVOCI - equity instruments	(F)		(49,916)		
Subtraction: to amortised cost - debt securities	(B)		(618,376)		
Subtraction: to FVTPL (mandatory)	(G)		(3,261)		
Closing balance					-
FVOCI - debt instruments					
Opening balance		-			
Addition: from financial assets available-for-sale	(E)		1,604,940		
Closing balance					1,604,940
FVOCI - equity instruments					
Opening balance		-			
Addition: from financial assets available-for-sale	(F)		49,916		
Closing balance					49,916
Total financial assets measured at fair value through other comprehensive income		**2,276,493**			**1,654,856**
Fair value through profit and loss (FVTPL)					
Trading assets					
Opening balance and closing balance		72,189			72,189
Financial assets FVTPL (designated)					
Opening balance		5,003			
Subtraction: to financial assets FVTPL (mandatory)	(H)		(5,003)		
Closing balance					-
Financial assets FVTPL (mandatory)					
Opening balance		-			
Addition: from financial assets FVTPL (designated)	(H)		5,003		
Addition: from financial assets available-for-sale	(G)		3,261		
Addition: from loans and advances to customers	(A)		25,033		
Remeasurement: from amortised cost to fair value				(384)	
Closing balance					32,913
Total financial assets measured at fair value through profit and loss		**77,192**			**105,102**

in EUR thousands

NLB	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Amortised Cost					
Cash, cash balances at central banks, and other demand deposits at banks					
Opening balance		570,010			
Remeasurement: ECL allowance				(67)	
Closing balance					569,943
Loans and advances to banks					
Opening balance		462,322			
Remeasurement: ECL allowance				(492)	
Closing balance					461,830
Loans and advances to customers					
Opening balance		4,587,477			
Subtraction: to financial assets FVTPL (mandatory)	(A)		(31,372)		
Remeasurement: ECL allowance				45,590	
Remeasurement: modifications				(7,409)	
Closing balance					4,594,286
Other financial assets					
Opening balance		38,389			
Remeasurement: ECL allowance				526	
Closing balance					38,915
Debt securities					
Opening balance		82,133			
Addition: from financial assets available-for-sale	(B)		491,936		
Addition: from financial assets held-to-maturity	(C)		609,712		
Remeasurement: from fair value to amortised cost				(2,232)	
Remeasurement: ECL allowance				(1,225)	
Remeasurement: reclassified bonds	(D)			(2,236)	
Closing balance					1,178,088
Held-to-maturity investments					
Opening balance		609,712			
Subtraction: to debt securities - amortised cost	(C)		(609,712)		
Closing balance					-
Total financial assets measured at amortised cost		**6,350,043**			**6,843,062**
Fair value through other comprehensive income (FVOCI)					
Financial assets available-for-sale					
Opening balance		1,777,762			
Subtraction: to FVOCI - debt instruments	(E)		(1,238,977)		
Subtraction: to FVOCI - equity instruments	(F)		(44,790)		
Subtraction: to amortised cost - debt securities	(B)		(491,936)		
Subtraction: to FVTPL (mandatory)	(G)		(2,059)		
Closing balance					-

in EUR thousands

NLB	Ref	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
FVOCI - debt instruments					
Opening balance		-			
Addition: from financial assets available-for-sale	(E)		1,238,977		
Closing balance					1,238,977
FVOCI - equity instruments					
Opening balance		-			
Addition: from financial assets available-for-sale	(F)		44,790		
Closing balance					44,790
Total financial assets measured at fair value through other comprehensive income		**1,777,762**			**1,283,767**
Fair value through profit and loss (FVTPL)					
Trading assets					
Opening balance and closing balance		72,180			72,180
Financial assets FVTPL (designated)					
Opening balance		634			
Subtraction: to financial assets FVTPL (mandatory)	(H)		(634)		
Closing balance					-
Financial assets FVTPL (mandatory)					
Opening balance		-			
Addition: from financial assets FVTPL (designated)	(H)		634		
Addition: from financial assets available-for-sale	(G)		2,059		
Addition: from loans and advances to customers	(A)		31,372		
Remeasurement: from amortised cost to fair value				(1,317)	
Closing balance					32,748
Total financial assets measured at fair value through profit and loss		**72,814**			**104,928**

(A) Certain loans and advances to customers that were under IAS 39 classified as Loans and advances measured at amortised costs, under IFRS 9 meet the criteria for mandatory measurement at FVTPL because the contractual cash flows of these assets are not solely payments of principal and interest on the principal outstanding.

(B) Certain debt securities held by the Group may be sold, but such sales are not expected to be more than infrequent or significant. These securities are held within a business model whose objective is to hold assets to collect the contractual cash flows, and are therefore measured at amortised cost under IFRS 9.

(C) Debt instruments previously classified as held to maturity have been reclassified to amortised cost under IFRS 9, as their previous category under IAS 39 was diminished.

(D) During the year 2009 NLB Group reclassified certain bonds from the trading category to loans and advances, since it had a positive intent and ability to hold them for the foreseeable future or until maturity, rather than trade them in the short term. The fair value of reclassified bonds on the date of reclassification became their new amortised cost. At transition to IFRS 9, NLB Group recalculated amortised cost of these securities as if they had been measured at amortised cost since their initial recognition.

(E) The Group holds certain debt securities to meet everyday liquidity needs. Under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and are therefore measured at fair value through other comprehensive income.

(F) Certain equity investments held by the Group have been designated under IFRS 9 as at FVOCI, because they are not strategic and the Group can't control them. The changes in fair value of such investments will no longer be recognised in profit or loss, not even in case of disposal. Before the adoption of IFRS 9, these investments were classified as available for sale.

(G) For certain equity investments, management didn't make an irrevocable election at initial recognition that subsequent changes in fair value would be measured at fair value through other comprehensive income. These assets are, in accordance with IFRS 9, classified as mandatorily measured at FVTPL. Also some shares that do not meet definition of equity instruments are classified in the same category.

(H) Before the adoption of IFRS 9, certain investments in funds were managed and evaluated on a fair value basis. Under IFRS 9, these investments are part of an "other" business model, and so required to be classified as FVTPL. Additionally, some equity investments were designated at FVTPL in order to reduce accounting mismatch that would otherwise arise. Under IFRS 9 these investments are mandatorily measured at FVTPL.

The following table reconciles:

- the closing balance of the loan loss allowance for credit losses for financial assets in accordance with IAS 39, and provisions for credit losses for loan commitments and financial guarantee contracts in accordance with IAS 37 as at 31 December 2017; to
- the opening balance of the loan loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

in EUR thousands

	NLB Group				
Measurement category	**31 December 2017 Loan loss allowance under IAS 39/ Provision under IAS 37**	**Interest loss allowance 31 December 2017**	**Reclassification**	**Remeasurement**	**1 January 2018 Loan loss allowance under IFRS 9**
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9					
Cash, cash balances at central banks, and other demand deposits at banks	-	-	-	657	657
Loans and advances - debt securities	-	-	-	17	17
Loans and advances to banks	576	-	-	137	713
Loans and advances to customers	646,752	7,347	(27,737)	(76,471)	549,891
Loans and advances - other financial assets	11,705	1	-	(838)	10,868
Held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9	73	-	-	496	569
Available for sale debt investment securities under IAS 39/ financial assets at amortised cost under IFRS 9	-	-	-	1,583	1,583
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	-	-	4,487	4,487
Loan commitments and financial guarantee contract issued	36,915	-	(5,435)	10,785	42,265
Total	**696,021**	**7,348**	**(33,172)**	**(59,147)**	**611,050**

in EUR thousands

Measurement category	NLB				
	31 December 2017 Loan loss allowance under IAS 39/ Provision under IAS 37	Interest loss allowance 31 December 2017	Reclassification	Remeasurement	1 January 2018 Loan loss allowance under IFRS 9
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9					
Cash, cash balances at central banks, and other demand deposits at banks	-	-	-	67	67
Loans and advances - debt securities	-	-	-	17	17
Loans and advances to banks	-	-	-	492	492
Loans and advances to customers	317,063	6,738	(25,753)	(45,590)	252,458
Loans and advances - other financial assets	3,191	1	-	(526)	2,666
Held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9	73	-	-	496	569
Available for sale debt investment securities under IAS 39/ financial assets at amortised cost under IFRS 9	-	-	-	712	712
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	-	-	-	2,190	2,190
Loan commitments and financial guarantee contract issued	34,257	-	(5,037)	1,452	30,672
Total	**354,584**	**6,739**	**(30,790)**	**(40,690)**	**289,843**

For financial assets that have been reclassified to the amortised cost category, the following table shows their fair value as at 31 December 2018, and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to IFRS 9.

in EUR thousands

From available-for-sale financial assets under IAS 39	NLB Group	NLB
Fair value as at 31 December 2018	209,521	160,051
Fair value gain/loss that would have been recognised during the year in OCI if the financial assets had not been reclassified	1,654	1,787

At transition to IFRS 9, as of 1 January 2018, NLB Group identified only few loan exposures that did not pass the SPPI test due to modified element of time value of money, and are therefore measured mandatorily at fair value through profit or loss.

3. Changes in subsidiary holdings

Changes in 2018

Capital changes:

- An increase in share capital in the form of a cash contribution in the amount of EUR 300 thousand in Prospera plus d.o.o., Ljubljana – v likvidaciji for covering operating costs.
- An increase in share capital in the form of a cash contribution in the amount of EUR 1,300 thousand in S-REAM d.o.o., Ljubljana to ensure regular business operations.

Other changes:

- In March 2018, NLB Group sold its core subsidiary NLB Nov Penziski Fond, Skopje (note 4.14. and 5.10.c).
- NLB Interfinanz, Praga – v likvidaci and NLB Interfinanz, Belgrade – u likvidaciji are formally in liquidation.
- In May 2018 S-REAM, poslovanje z nepremičninami, d.o.o. Ljubljana was established and will manage certain real estate in NLB Group. NLB's ownership is 100%.
- In June 2018 NLB Propria d.o.o., Ljubljana – v likvidaciji was liquidated. In accordance with a court order, the company was removed from the court register.
- In September 2018, NLB sold its associate Skupna pokojninska družba d. d., Ljubljana (note 4.14.).
- In December 2018, NLB received EUR 958 thousand from liquidation of NLB Lizing Skopje (note 4.13.). In January 2019 liquidation was finished and the company was removed from the court register in accordance with court order.
- In December 2018, NLB sold its subsidiary REAM d.o.o., Zagreb to S-REAM, d.o.o., poslovanje z nepremičninami, Ljubljana (note 4.14.).

Changes in 2017

Capital changes:

- An increase in share capital in the form of a cash contribution in the amount of EUR 10,909 thousand in NLB Banka Belgrade, REAM d.o.o. Belgrade and REAM d.o.o. Zagreb to ensure an increase in business operations.
- An increase in share capital in the form of cash contributions in the amount of EUR 75 thousand in CBS Invest, Sarajevo to ensure capital adequacy until the end of liquidation.
- NLB acquired shares of NLB Banka, Podgorica, and thereby increased its ownership from 99.36% to 99.83%. The increase in the capital investment was recognised in the amount of EUR 125 thousand.
- An increase in share capital in the form of a cash contribution in the amount of EUR 212 thousand in Prvi Faktor d.o.o., Belgrade – u likvidaciji to ensure capital adequacy until the end of the liquidation. Now NLB has directly 5% ownership in the company.

Other changes:

- Kreditni biro SISBON was liquidated. In accordance with a court order, the company was removed from the court register.
- SPV 2 d.o.o., Novi Sad was established and will manage certain real estate in NLB Group. NLB's ownership is 100%. In August 2017 headquarters of the company was moved to Belgrade, and so the company is now called SPV 2 d.o.o., Belgrade.
- In July 2017, NLB sold its non-core subsidiary NLB Factoring – "v likvidaci," Brno.
- Prospera plus d.o.o., Ljubljana – v likvidaciji and NLB Leasing d.o.o. – v likvidaciji, Ljubljana are formally in liquidation.

4. Notes to the income statement

4.1. Interest income and expenses

Analysis by type of assets and liabilities

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Interest and similar income				
Interest income, using the effective interest method	351,773	356,932	174,296	181,454
Loans and advances to customers at amortised cost	304,652	-	139,235	-
Securities measured at amortised cost	23,107	-	19,152	-
Financial assets measured at fair value through other comprehensive income	20,749	-	12,937	-
Loans and advances to banks measured at amortised cost	2,070	-	2,394	-
Loans and advances to customers (IAS 39)	-	311,581	-	148,229
Available-for-sale financial assets (IAS 39)	-	26,476	-	14,045
Held-to-maturity financial assets (IAS 39)	-	16,446	-	16,446
Loans and advances to banks and central banks (IAS 39)	-	1,548	-	2,304
Deposits with banks and central banks	1,195	881	578	430
Interest income, not using the effective interest method	7,084	6,801	7,135	6,801
Financial assets held for trading	5,571	6,801	5,571	6,801
Non-trading financial assets mandatorily at fair value through profit or loss	1,513	-	1,564	-
Total	**358,857**	**363,733**	**181,431**	**188,255**
Interest and similar expenses				
Due to customers	25,039	29,476	5,616	8,852
Debt securities in issue	-	4,357	-	4,357
Financial liabilities held for trading	4,814	5,896	4,814	5,896
Derivatives - hedge accounting	8,372	6,249	8,372	6,249
Borrowings from banks and central banks	1,505	2,243	1,221	1,670
Borrowings from other customers	1,160	1,561	-	-
Subordinated liabilities	1,275	1,593	-	-
Negative interest	3,364	2,436	2,987	2,115
Interest expenses on defined employee benefits (note 2.30., 5.19.d)	221	242	126	110
Deposits from banks and central banks	184	220	258	166
Other financial liabilities	13	144	5	51
Total	**45,947**	**54,417**	**23,399**	**29,466**
Net interest	**312,910**	**309,316**	**158,032**	**158,789**

The item 'Negative interest' includes the interest from deposits with banks and central banks in amount of EUR 3,179 thousand for NLB Group (2017: EUR 2,107 thousand), and EUR 2,802 thousand for NLB (2017: EUR 1,786 thousand), and also interest from financial assets measured at fair value through other comprehensive income with negative effective interest rates due to purchase with a premium in the amount of EUR 185 thousand for NLB Group and NLB (2017 available for sale financial assets in amount of EUR 329 thousand).

4.2. Dividend income

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Financial assets measured at fair value through other comprehensive income	95	-	-	-
- related to investments derecognised during the period	12	-	-	-
- related to investments held at the end of reporting period	83	-	-	-
Investments in subsidiaries	-	-	47,955	53,797
Investments in associates, and joint ventures	-	-	1,714	4,215
Non-trading financial assets mandatory at fair value through profit or loss	23	-	23	-
Available-for-sale financial assets (IAS 39)	-	179	-	50
Total	**118**	**179**	**49,692**	**58,062**

4.3. Fee and commission income and expenses

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

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Fee and commission income				
Fee and commission income relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	66,552	60,976	41,015	39,459
Customer transaction accounts	48,829	43,485	36,378	32,699
Other fee and commission income				
Payments	56,472	56,997	27,151	28,408
Investment funds	16,369	17,070	4,991	5,000
Guarantees	10,840	11,111	7,095	7,306
Agency of insurance products	4,757	4,073	4,199	4,060
Other services	5,467	5,810	3,897	3,900
Total	**209,286**	**199,522**	**124,726**	**120,832**
Fee and commission expenses				
Fee and commission expenses relating to financial instruments not at fair value through profit or loss				
Credit cards and ATMs	43,461	38,064	26,131	22,980
Other fee and commission expenses				
Payments	6,125	5,675	829	812
Insurance for holders of personal accounts and gold cards	1,148	1,465	906	983
Investment banking	2,062	1,433	764	345
Guarantees	161	231	30	170
Other services	2,200	2,891	1,059	1,210
Total	**55,157**	**49,759**	**29,719**	**26,500**
Net activity fee and commission income	**154,129**	**149,763**	**95,007**	**94,332**

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

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Fee and commission income related to fiduciary activities				
Receipt, processing, and execution of orders	1,418	1,171	1,367	1,153
Management of financial instruments portfolio	1,240	1,351	-	-
Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis	574	123	574	123
Custody and similar services	5,151	5,090	5,120	4,979
Management of clients' account of non-materialised securities	795	613	795	613
Advice to companies on capital structure, business strategy, and related matters and advice, and services relating to mergers and acquisitions of companies	95	38	95	49
Total	**9,273**	**8,386**	**7,951**	**6,917**
Fee and commission expenses related to fiduciary activities				
Fee and commission related to Central Securities Clearing Corporation and similar organisations	2,728	2,697	2,736	2,706
Fee and commission related to stock exchange and similar organisations	59	34	59	34
Total	**2,787**	**2,731**	**2,795**	**2,740**
Net fee income related to fiduciary activities	**6,486**	**5,655**	**5,156**	**4,177**
Total fee and commission income	**218,559**	**207,908**	**132,677**	**127,749**
Total fee and commission expenses	**57,944**	**52,490**	**32,514**	**29,240**
Total a) and b)	**160,615**	**155,418**	**100,163**	**98,509**

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

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Debt instruments measured at fair value through other comprehensive income				
- gains	941	-	785	-
- losses	(697)	-	(697)	-
Debt instruments measured at amortised cost				
- gains	6	-	6	-
- losses	(459)	-	(459)	-
Available-for-sale financial assets (IAS 39)				
- gains	-	12,455	-	11,883
- losses	-	(213)	-	(172)
Financial liabilities measured at amortised cost				
- gains	254	-	-	-
Total	**45**	**12,242**	**(365)**	**11,711**

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

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Foreign exchange trading				
- gains	18,762	19,469	10,947	11,243
- losses	(8,145)	(8,851)	(6,943)	(7,093)
Debt instruments				
- gains	551	1,093	551	1,093
- losses	(933)	(1,135)	(933)	(1,135)
Derivatives				
- currency	260	1,232	257	1,698
- interest rate	(753)	1,170	(752)	1,170
- cross currency interest rate	-	(77)	-	(77)
- securities	(242)	166	(242)	166
Total	**9,500**	**13,067**	**2,885**	**7,065**

4.6. Gains less losses from non-trading financial assets mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group	NLB
	2018	2018
Equity securities		
- gains	1,121	1,088
- losses	(834)	(543)
Debt securities		
- losses	(10)	-
Loans and advances to customers		
- gains	3,759	4,739
Total	**4,036**	**5,284**

4.7. Foreign exchange translation gains less losses

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Financial assets and liabilities not classified as at fair value through profit or loss	782	(381)	255	(892)
Disposal of a subsidiary	(2)	2,614	-	-
Financial assets measured at fair value through profit or loss	(37)	(177)	(37)	(177)
Other	2	93	-	62
Total	**745**	**2,149**	**218**	**(1,007)**

4.8. Other operating income

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Income from non-banking services	8,176	12,099	5,653	8,255
- IT services	988	3,531	988	3,531
- cash transportation	3,328	3,617	3,328	3,617
- operating leases of movable property	2,152	2,798	437	439
- other	1,708	2,153	900	668
Rental income from investment property	4,759	5,440	543	381
Revaluation of investment property to fair value (note 5.12.)	730	2,242	169	396
Sale of investment property	121	1,821	69	62
Other operating income	4,894	4,822	3,334	3,078
Total	**18,680**	**26,424**	**9,768**	**12,172**

4.9. Other operating expenses

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Deposit guarantee	13,818	13,393	5,746	4,732
Revaluation of investment property to fair value (note 5.12.)	774	3,396	65	2,382
Single Resolution Fund	2,506	2,590	2,506	2,590
Other taxes and compulsory public levies	2,772	2,993	1,001	1,093
Expenses related to issued service guarantees	3,068	589	3,068	589
Membership fees and similar fees	840	1,122	361	700
Expenses related to legal issues for Croatian savers (note 5.19.)	635	2,202	635	2,202
Other operating expenses	3,855	3,126	1,255	961
Total	**28,268**	**29,411**	**14,637**	**15,249**

Other operating expenses mainly include expenses associated with licences, donations, and damages.

4.10. Administrative expenses

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Employee costs				
Gross salaries, compensations, and other short-term benefits	146,171	139,918	91,742	88,429
Defined contribution scheme	10,351	11,323	6,776	6,718
Social security contributions	8,457	9,195	5,551	5,503
Defined benefit expenses (note 5.19.d)	139	4,049	(225)	3,046
Post-employment benefits	343	94	69	462
Other employee benefits	(204)	3,955	(294)	2,584
Total	**165,118**	**164,485**	**103,844**	**103,696**
Other general and administrative expenses				
Material	5,284	5,413	2,330	2,488
Services	26,372	25,957	16,842	15,032
Intellectual services	10,933	10,317	6,854	5,660
Costs of supervision	2,900	2,542	1,444	1,176
Costs of other services	12,539	13,098	8,544	8,196
Business travel	1,300	1,189	515	419
Marketing	8,993	7,031	5,486	3,739
Buildings and equipment	27,094	26,609	14,200	14,087
Electricity	4,138	4,124	2,321	2,117
Rents and leases	6,385	6,070	1,242	1,256
Maintainance costs	6,956	6,211	5,219	4,597
Costs of security	3,712	3,499	1,652	1,441
Insurance for tangible assets	2,052	2,725	1,120	1,722
Other costs related to buildings and equipment	3,851	3,980	2,646	2,954
Technology	16,377	15,492	10,895	10,873
Maintainance of software and hardware	8,496	8,355	5,851	5,493
Licences	3,949	2,950	2,341	2,560
Data assets and subscription costs	2,059	1,904	1,535	1,262
Other technology costs	1,873	2,283	1,168	1,558
Communications	8,757	8,505	6,025	6,055
Postal services	4,547	4,322	4,010	3,880
Telecommunication and internet	2,149	2,178	765	874
Other communication costs	2,061	2,005	1,250	1,301
Other general and administrative costs	2,137	2,226	1,302	1,488
Total	**96,314**	**92,422**	**57,595**	**54,181**
Total administrative expenses	**261,432**	**256,907**	**161,439**	**157,877**
Number of employees	5,887	6,029	2,690	2,789

Costs of other services include costs for cash transport, archiving services, personal insurance costs, and legal costs and fees.

In the presented years NLB Group and NLB paid the following expenses to the statutory auditor:

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
External audit services				
Audit of annual report	497	559	206	198
Other audit services	492	361	479	361
Other non-audit services	6	253	6	253
Total	**995**	**1,173**	**691**	**812**

4.11. Depreciation and amortisation

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Amortisation of intangible assets (note 5.13.)	10,794	10,916	8,135	8,555
Depreciation of property and equipment (note 5.11.)	16,430	16,886	9,396	9,455
Total	**27,224**	**27,802**	**17,531**	**18,010**

4.12. Provisions

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Guarantees and commitments (note 5.19.b) and c)	(3,156)	(3,460)	(1,157)	(2,296)
Restructuring provisions (note 5.19.e)	(21)	8,588	-	8,400
Provisions for legal issues (note 5.19.f)	1,533	682	(2,258)	1,831
Other provisions (note 5.19.g)	-	(559)	-	(591)
Total	**(1,644)**	**5,251**	**(3,415)**	**7,344**

4.13. Impairment charge

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Impairment of financial assets				
Cash balances at central banks, and other demand deposits at banks	(175)	-	21	-
Loans and advances to individuals measured at amortised cost (note 5.16.a)	7,724	-	3,155	-
Loans and advances to legal entities measured at amortised cost (note 5.16.a)	(35,902)	-	(31,988)	-
Debt securities measured at fair value through other comprehensive income (note 5.16.b)	(26)	-	148	-
Debt securities measured at amortised cost (note 5.16.b)	733	-	25	-
Other financial assets measured at amortised cost (note 5.16.a)	599	-	(20)	-
Available-for-sale financial assets (IAS39) (note 5.5.b)	-	23	-	23
Held-to-maturity financial assets (IAS39) (note 5.9.b)	-	(10)	-	(10)
Loans and advances to banks (IAS39) (note 5.17.b)	-	187	-	-
Loans to government (IAS39) (note 5.17.b)	-	(7,706)	-	(1,891)
Loans to financial organisations (IAS39) (note 5.17.b)	-	(2,244)	-	(15,569)
Loans to individuals (IAS39) (note 5.17.a)	-	8,916	-	2,968
Loans to other customers (IAS39) (note 5.17.b)	-	(40,284)	-	(25,289)
Other financial assets (IAS39) (note 5.17.c)	-	1,130	-	587
Total	**(27,047)**	**(39,988)**	**(28,659)**	**(39,181)**
Impairment of investments in subsidiaries, associates and JV				
Investments in subsidiaries	-	-	(958)	674
Investments in associates and joint ventures	-	-	20	19
Total	**-**	**-**	**(938)**	**693**
Impairment of other assets				
Property and equipment (note 5.11.)	643	717	-	390
Other assets	4,771	4,490	(43)	90
Total	**5,414**	**5,207**	**(43)**	**480**
Total impairment	**(21,633)**	**(34,781)**	**(29,640)**	**(38,008)**

In 2018, NLB impaired equity investments in non-core subsidiaries and an associate in a total amount of EUR 544 thousand (2017: EUR 731 thousand), and released an impairment in a total amount of EUR 1,482 thousand mainly due to repayment from liquidation mass of non-core subsidiaries (2017: EUR 38 thousand).

Impairments of investments in subsidiaries and associate are included in the segment 'Non-core markets and activities.'

4.14. Gains less losses from non-current assets held for sale

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Gains less losses on derecognition of subsidiaries	12,178	(928)	9,203	-
Gains less losses on derecognition of associates	(477)	(2)	2,465	159
Gains less losses from property and equipment	127	(1,756)	154	451
Total	**11,828**	**(2,686)**	**11,822**	**610**

In 2018, NLB sold its subsidiaries NLB Nov Penziski Fond a.d., Skopje and Ream d.o.o., Zagreb. At sale of NLB Nov Penziski Fond a.d., Skopje NLB Group realised a profit in the amount of EUR 12,178 thousand and NLB in the amount of EUR 8,840 thousand.

In 2018, NLB sold its associate Skupna pokojninska družba d.o.o., Ljubljana. At sale, NLB Group realised a loss in the amount of EUR 477 thousand and NLB realised a profit in the amount of EUR 2,465 thousand.

4.15. Income tax

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Current income tax	22,679	12,688	12,027	2,945
Deferred tax (note 5.20.)	(920)	(8,691)	160	(7,164)
Total	**21,759**	**3,997**	**12,187**	**(4,219)**

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Profit before tax	233,336	237,311	177,486	184,875
Tax calculated at prescribed rate of 19%	44,334	45,089	33,722	35,126
Income not assessable for tax purposes	(3,100)	(2,089)	(10,223)	(11,133)
Expenses not deductible for tax purposes	(2,438)	3,238	838	(1,007)
Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates	(141)	(14,810)	(319)	(14,202)
Tax allowances	(1,920)	(1,550)	(1,536)	(1,436)
Effect of unrecognised deferred tax assets on tax losses	(8,715)	(10,919)	(11,957)	(4,589)
Effects of different tax rates in other countries	(8,324)	(9,081)	-	-
Changes in recognition and measurement of deferred taxes	-	(5,066)	-	(6,734)
Withholding tax suffered in other countries for which no tax credit was available in Slovenia	1,605	2,302	1,605	2,302
Adjustment to tax in respect of prior periods	27	(2,688)	1	(2,117)
Other	431	(429)	56	(429)
Total	**21,759**	**3,997**	**12,187**	**(4,219)**

Income tax rates within NLB Group range from 9-32%. A tax rate of 19% was applied in Slovenia in 2018 (2017: 19%).

The majority of non-taxable income relates to dividends and income deemed to be dividends. NLB excluded EUR 48,072 thousand in dividend income and income deemed to be dividends from its tax base in 2018 (2017: EUR 57,053 thousand).

The effect of unrecognised deferred tax assets on impairments of subsidiaries and associates represents mainly a decrease of the tax base of NLB due to utilisation of previously tax non-deductible expenses for impairments of subsidiaries that were divested.

NLB recognised deferred tax assets accrued on the basis of temporary differences in an amount that, given future profit estimates, is expected to be reversed in the foreseeable future (i.e. within five years). Due to some uncertainties regarding external factors (regulatory environment, market situation, etc.), a lower range of expected outcomes was considered for purposes of deferred tax assets calculation. NLB did not recognise deferred tax assets arising from tax losses. NLB recognised deferred tax assets on all temporary differences, except for impairments of non-strategic capital investments where deferred tax assets are recognised in the amount that, taking into account other recognised deferred tax assets reaches the total amount of deferred tax assets, for which a reversal is expected within five years. Deferred tax assets for temporary non-deductible expenses for impairment of debt securities measured at fair value through other comprehensive income are excluded from this calculation, as deferred tax liabilities are recognised in the same amount in other comprehensive income.

Other NLB Group members did not recognise deferred tax assets for tax losses where there is uncertainty about whether the tax losses can be utilised, because it is not probable that future taxable profits will be available against which the deferred tax assets can be utilised, and where the utilisation of unused tax losses is limited to five years.

NLB did not recognise deferred tax assets on temporary differences arising from the impairment of investments in strategic subsidiaries and associates in amount of EUR 321,561 thousand as at 31 December 2018 (31 December 2017: EUR 322,186 thousand), where it is not probable that the temporary difference will reverse in the foreseeable future. Impairments of investments in non-strategic subsidiaries on which NLB did not recognise deferred tax assets due to exceeding the total balance of deferred tax assets that are expected to be reversed within five years amount to EUR 382,053 thousand (2017: EUR 382,462 thousand).

The effective tax rate of the NLB Group relating to operations in 2018 is 9.3% (2017: 1.7) (calculated as a ratio of the tax expense and profit before tax), and for NLB is 6.9% (2017: -2.3%)

4.16. Earnings per share

Earnings per share are calculated by dividing the net profit by the weighted average number of ordinary shares in issue, less treasury shares.

Diluted earnings per share are the same as basic earnings per share for NLB Group and NLB, since subordinated loans and issued debt securities have no future conversion options, and consequently there are no dilutive potential ordinary shares.

	NLB Group		NLB	
	2018	2017	2018	2017
Net profit attributable to the owners of the parent (in EUR thousandss)	203,647	225,069	165,299	189,094
Weighted average number of ordinary shares (in thousands)	20,000	20,000	20,000	20,000
Basic earnings per share (in EUR per share)	10.2	11.3	8.3	9.5
Diluted earnings per share (in EUR per share)	10.2	11.3	8.3	9.5

5. Notes to the statement of financial position

5.1. Cash, cash balances at central banks, and other demand deposits at banks

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Balances and obligatory reserves with central banks	1,075,378	798,758	575,088	350,804
Cash	312,748	269,696	153,315	143,726
Demand deposits at banks	200,693	188,027	66,787	75,480
	1,588,819	**1,256,481**	**795,190**	**570,010**
Allowance for impairment	(470)	-	(88)	-
Total	**1,588,349**	**1,256,481**	**795,102**	**570,010**

Slovenian banks are required to maintain a compulsory reserve with the Bank of Slovenia relative to the volume and structure of their customer deposits. Other banks in NLB Group maintain a compulsory reserve in accordance with local legislation. NLB and other banks in NLB Group fulfill their compulsory reserve deposit requirements.

5.2. Financial instruments held for trading

a) Trading assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Derivatives, excluding hedging instruments				
Swap contracts	13,561	11,739	13,563	11,734
- currency swaps	1,081	384	1,083	379
- interest rate swaps	12,480	11,355	12,480	11,355
Options	414	847	414	847
- interest rate options	85	276	85	276
- securities options	329	571	329	571
Forward contracts	937	439	937	435
- currency forward	937	439	937	435
Total derivatives	**14,912**	**13,025**	**14,914**	**13,016**
Securities				
Bonds	18,659	4,117	18,659	4,117
- Republic of Slovenia	6,770	-	6,770	-
- other issuers	*11,889*	*4,117*	*11,889*	*4,117*
Treasury bills - Republic of Slovenia	30,038	55,047	30,038	55,047
Total securities	**48,697**	**59,164**	**48,697**	**59,164**
Total	**63,609**	**72,189**	**63,611**	**72,180**
- quoted securities	48,697	59,164	48,697	59,164
of these debt instruments	48,697	59,164	48,697	59,164

The notional amounts of derivative financial instruments are disclosed in note 5.26.b.

b) Trading liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Derivatives, excluding hedges				
Swap contracts	11,343	8,855	11,302	8,751
- currency swaps	956	367	915	263
- interest rate swaps	10,387	8,488	10,387	8,488
Options	86	276	86	276
- interest rate options	86	276	86	276
Forward contracts	871	371	868	371
- currency forward	*871*	*371*	*868*	*371*
Total	**12,300**	**9,502**	**12,256**	**9,398**

The notional amounts of derivative financial instruments are disclosed in note 5.26.b.

5.3. Non-trading financial instruments measured at fair value through profit or loss

a) Financial instruments mandatorily at fair value through profit or loss

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	31 Dec 2018
Assets		
Shares	2,513	2,513
Investment funds	4,067	34
Bonds	2,009	-
Loans and advances to companies	23,800	26,594
Total	**32,389**	**29,141**
- quoted securities		
of these equity instruments	4,657	624
of these debt instruments	2,009	-
- unquoted securities		
of these equity instruments	1,923	1,923

As at 31 December 2018, the value of equity instruments obtained by NLB Group from taking possession of collateral and recognised in the statement of financial position is EUR 624 thousand (note 6.1.s).

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	31 Dec 2018
Liabilities		
Loans and advances to companies	4,190	3,981

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

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Assets		
Private equity fund	634	634
Other investments	4,369	-
Total	**5,003**	**634**
Liabilities		
Structured deposit	635	635
Total	**635**	**635**

As at 31 December 2017 in NLB, investments in private equity funds in the amount of EUR 634 thousand are designated at fair value through profit or loss to reduce the accounting mismatch that would otherwise arise. Financial liability, designated at fair value through profit or loss in the amount of EUR 635 thousand is the structured deposit from customers from which the returns depend on the returns from private equity funds, classified as financial assets measured at fair value through profit or loss.

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

5.4. Financial assets measured at fair value through other comprehensive income

a) Analysis by type of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	31 Dec 2018
Bonds	1,648,863	1,433,476
- governments	1,051,199	837,347
- Republic of Slovenia	425,114	402,783
- other EU members	427,862	417,233
- non-EU members	198,223	17,331
- banks	588,180	588,180
- other issuers	9,484	7,949
Shares	4,577	248
National Resolution Fund	44,484	44,484
Treasury bills	99,398	50,106
- Republic of Slovenia	50,106	50,106
- non-EU members	49,292	-
Commercial bills	100,757	-
Total	**1,898,079**	**1,528,314**
Allowance for impairment	(4,470)	(2,339)
- quoted securities	1,685,708	1,483,582
of these equity instruments	3,185	-
of these debt instruments	1,682,523	1,483,582
- unquoted securities	212,371	44,732
of these equity instruments	45,876	44,732
of these debt instruments	166,495	-

b) Movements of financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group	NLB
	2018	2018
Balance as at 1 January	1,654,856	1,283,767
Effects of translation of foreign operations to presentation currency	(209)	-
Additions	1,579,126	481,507
Disposals and maturity	(1,350,103)	(243,219)
Net interest income (note 4.1.)	20,564	12,752
Exchange differences on monetary assets	964	1,038
Changes in fair values	(7,119)	(7,531)
Balance as at 31 December	**1,898,079**	**1,528,314**

As at 31 December 2018, the value of equity instruments obtained by NLB Group from taking possession of collateral and recognised in the statement of financial position is 3,185 thousand (note 6.1.s).

By selling equity securities measured at fair value through other comprehensive income, in 2018 NLB Group realised a net gain in the amount of EUR 2,101 thousand, and NLB a net gain in the amount of EUR 44 thousand. This gain is transferred to retained earnings (note 5.4.c).

c) Accumulated other comprehensive income related to financial assets measured at fair value through other comprehensive income

in EUR thousands

	NLB Group	NLB
	2018	2018
Balance as at 1 January	45,315	27,741
Effects of translation of foreign operations to presentation currency	(18)	-
Disposal of subisidiaries	(65)	-
Net gains/(losses) from changes in fair value	(10,969)	(11,381)
Gains/losses transferred to net profit on disposal (note 4.4.)	(244)	(88)
Impairment (note 4.13.)	(26)	148
Transfer of gains/losses to retained earnings	(2,101)	(44)
Deferred income tax (note 5.20.)	2,394	2,244
Share of other comprehensive income of associates and joint ventures	(5,425)	-
Balance as at 31 December	**28,861**	**18,620**
- debt securities	26,818	18,477
- equity securities	2,043	143

5.5. Available-for-sale financial assets (IAS 39)

a) Analysis by type of available-for-sale financial assets

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Bonds	1,805,250	1,554,565
- governments	1,210,080	959,395
- Republic of Slovenia	377,612	377,612
- other EU members	571,669	571,669
- non-EU members	260,799	10,114
- banks	548,623	548,623
- other issuers	46,547	46,547
Shares	8,670	2,334
National Resolution Fund	44,514	44,514
Treasury bills	136,182	40,070
- Republic of Slovenia	40,070	40,070
- non-EU members	96,112	-
Commercial bills	281,877	136,279
Total	**2,276,493**	**1,777,762**
- quoted securities	1,816,373	1,595,115
of these equity instruments	3,598	480
of these debt instruments	1,812,775	1,594,635
- unquoted securities	460,120	182,647
of these equity instruments	49,586	46,368
of these debt instruments	410,534	136,279

b) Movements of available-for-sale financial assets

in EUR thousands

	NLB Group	NLB
	2017	2017
Balance as at 1 January	2,072,153	1,594,094
Effects of translation of foreign operations to presentation currency	3,564	-
Transfer to non-current assets and disposal group classified as held for sale (note 5.10.b)	(3,790)	-
Additions	2,105,251	881,646
Disposals and maturity	(1,911,882)	(695,299)
Net interest income (note 4.1.)	26,148	13,716
Exchange differences on monetary assets	(4,454)	(3,253)
Changes in fair values	(10,474)	(13,119)
Impairment (note 4.13.)	(23)	(23)
- impairment of equity securities	(23)	(23)
Balance as at 31 December	**2,276,493**	**1,777,762**

As at 31 December 2017, the value of equity instruments obtained by NLB Group from taking possession of collateral and recognised in the statement of financial position is EUR 3,536 thousand, and by NLB it amounted to EUR 480 thousand (note 6.1.s).

By selling equity securities available for sale, in 2017 NLB Group realised a net gain in the amount of EUR 9,964 thousand, and NLB a net gain in the amount of EUR 9,835 thousand. This gain is included in 'Gains Less Losses from Financial Assets and Liabilities not Classified at Fair Value through Profit or Loss' (note 4.4.).

c) Accumulated other comprehensive income related to available-for-sale financial assets

in EUR thousands

	NLB Group	NLB
	2017	2017
Balance as at 1 January	53,001	37,218
Effects of translation of foreign operations to presentation currency	(2)	-
Net gains/(losses) from changes in fair value	4,957	1,781
Gains/losses transferred to net profit on disposal or impairment	(12,216)	(11,685)
Deferred income tax (note 5.20.)	1,657	1,882
Share of other comprehensive income of associates and joint ventures	201	-
Balance as at 31 December	**47,598**	**29,196**
- debt securities	43,865	28,346
- equity securities	3,733	850

5.6. Derivatives for hedging purposes

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

NLB Group entities use various derivatives such as interest rate swaps (IRS) and currency interest rate swaps (CIRS) to close open positions in an individual maturity bucket. Micro and macro fair value hedges are used for that purpose, i.e. the swapping of a fixed interest rate on a hedged item for a variable interest rate. Micro cash flow hedges are also used, i.e. the swapping of a variable interest rate on a hedged item for a fixed interest rate. All cash flow hedges were made on liability items, while fair value hedges were used on both liability and asset items.

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

Hedge accounting rules were not applied in economic hedges using CIRS. Thus, the effects of valuation are disclosed in the income statement in the item 'Gains Less Losses from Financial Assets and Liabilities Held for Trading.'

a) Fair value adjustment in hedge accounting recognised in profit or loss

in EUR thousands

NLB Group and NLB	2018	2017
Fair value hedge	**472**	**(813)**
Net effects from hedging instruments	(4,224)	5,599
- interest rate swap for micro hedge	(2,425)	5,656
- interest rate swap for macro hedge	(1,799)	(57)
Net effects from hedged items	4,696	(6,412)
- loans measured at amortised cost - micro hedge	(170)	-
- bonds measured at amortised cost - micro hedge	(783)	-
- bonds measured at fair value through OCI - micro hedge	3,850	-
- loans measured at amortised cost- macro hedge	1,799	-
- bonds classified as loans - micro hedge	-	(2,468)
- available-for-sale financial assets - micro hedge	-	(3,211)
- loans and receivables - micro hedge	-	(775)
- loans and receivables - macro hedge	-	42

As at 31 December 2018 and 2017, NLB Group and NLB have no relationships designated for cash flow hedge accounting.

b) Notional amounts of interest rate swaps

in EUR thousands

	Notional amount	Fair value	
NLB Group and NLB		Asset	Liability
Fair value hedge			
31 Dec 2018	493,677	417	29,474
31 Dec 2017	406,218	1,188	25,529

c) Accumulated fair value adjustments arising from the corresponding continuing hedge relationships

The table below presents accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year. The accumulated fair value adjustment is presented in the same lane of Statement of financial position as a hedged item, except for macro fair value hedges. In such relationships, hedged items are presented in the item 'Financial assets measured at amortised cost,' while the accumulated fair value adjustment is presented in separate item 'Fair value changes of the hedged items in portfolio hedge of interest rate risk.'

in EUR thousands

NLB Group and NLB	2018 Carrying amount of hedged items	2018 Accumulated amount of FV adjustments on the hedged item	2017 Carrying amount of hedged items	2017 Accumulated amount of FV adjustments on the hedged item
Micro fair value hedges	**439,374**	**11,554**	**397,669**	**8,187**
Fixed rate corporate loans measured at AC	4,422	446	-	-
Fixed rate bonds measured at AC	78,655	1,974	-	-
Fixed rate bonds measured at FVOCI	356,297	9,134	-	-
Fixed rate corporate loans and receivables (IAS 39)	-	-	5,123	616
Fixed rate bonds classified as loans (IAS 39)	-	-	82,133	2,287
Fixed rate bonds classified as available-for-sale (IAS 39)	-	-	310,413	5,284
Macro fair value hedges	**114,224**	**2,517**	**71,345**	**719**
Fixed rate retail loans	114,224	2,517	71,345	719

5.7. Financial assets measured at amortised cost

Analysis by type

in EUR thousands

	NLB Group 31 Dec 2018	NLB 31 Dec 2018
Debt securities	1,428,962	1,274,978
Loans and advances to banks	118,696	110,297
Loans and advances to customers	7,124,633	4,451,477
Other financial assets	75,171	42,741
Total	**8,747,462**	**5,879,493**

a) Debt securities

in EUR thousands

	NLB Group 31 Dec 2018	NLB 31 Dec 2018
Government	1,138,415	982,856
Companies	81,990	81,990
Banks	183,715	183,715
Financial organisation	27,740	27,740
	1,431,860	**1,276,301**
Allowance for impairment (note 5.16.c)	(2,898)	(1,323)
Total	**1,428,962**	**1,274,978**

b) Loans and advances to banks

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	**31 Dec 2018**
Loans	1,710	40,073
Time deposits	116,450	69,639
Purchased receivables	662	662
	118,822	**110,374**
Allowance for impairment (note 5.16.a)	(126)	(77)
Total	**118,696**	**110,297**

c) Loans and advances to customers

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	**31 Dec 2018**
Loans	7,051,289	4,408,703
Overdrafts	311,366	178,590
Finance lease receivables	86,842	-
Credit card business	120,611	60,130
Called guarantees	8,092	6,613
	7,578,200	**4,654,036**
Allowance for impairment (note 5.16.a)	(453,567)	(202,559)
Total	**7,124,633**	**4,451,477**

Analysis of loans and advances to customers by sector

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	**31 Dec 2018**
Government	352,746	267,716
Financial organisations	88,676	177,744
Companies	3,041,159	1,790,350
Individuals	3,642,052	2,215,667
Total	**7,124,633**	**4,451,477**

Finance leases

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

in EUR thousands

NLB Group	31 Dec 2018
The gross investment in finance leases by maturity	
- not later than 1 year	37,818
- later than 1 year and not later than 5 years	53,450
- later than 5 years	3,874
	95,142
Unearned future finance income on finance leases	(8,300)
Net investment in finance leases	**86,842**
- present value of minimum lease payments	86,842
The net investment in finance leases by maturity	
- not later than 1 year	34,164
- later than 1 year and not later than 5 years	49,050
- later than 5 years	3,628
Total	**86,842**

Finance and operating lease transactions are carried out by NLB Group through specialised subsidiaries that offer car leasing, leasing of commercial and production equipment, and others.

The majority of the lease agreements entered into by NLB Group as lessor contracts are finance lease agreements (operating leases account for less than 10% of all lease agreements). The majority of agreements are concluded for a non-cancellable period of between 48 and 60 months, with an unguaranteed residual value representing a purchase option typically between 1 and 2% of the gross investment.

As at 31 December 2018, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 6,335 thousand.

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

d) Other financial assets

Analysis by type of other financial assets

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	31 Dec 2018
Credit card receivables	18,355	12,705
Receivables in the course of collection	19,127	16,110
Debtors	6,015	820
Fees and commissions	5,591	4,013
Dividends	44	44
Prepayments	5,131	-
Receivables from purchase agreements for equity securities	610	610
Other financial assets	28,494	10,327
	83,367	**44,629**
Allowance for impairment (note 5.16.a)	(8,196)	(1,888)
Total	**75,171**	**42,741**

Receivables in the course of collection are temporary balances which will be transferred to the appropriate item in the days following their occurrence.

Other financial assets include receivables to pension funds for prior pension payments, receivables from insurance companies, claims in enforcement procedures, claims for sold securities and trust services, claims from refunds, paid duties, and legal costs.

Analysis of other financial assets by sector

in EUR thousands

	NLB Group	NLB
	31 Dec 2018	31 Dec 2018
Banks	20,398	11,686
Government	17,923	2,903
Financial organisations	11,420	7,170
Companies	4,757	1,505
Individuals	20,673	19,477
Total	**75,171**	**42,741**

e) Movement of called non-financial guarantees

in EUR thousands

	NLB Group	NLB
Balance as at 1 January 2018	1,375	1,263
Called guarantees	1,127	457
Paid guarantees	(898)	(251)
Write-offs	(921)	(921)
Balance as at 31 December 2018	**683**	**548**

5.8. Loans and advances (IAS 39)

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Debt securities (companies)	82,133	82,133
Loans to banks	510,107	462,322
Loans and advances to customers	6,912,333	4,587,477
Other financial assets	66,077	38,389
Total	**7,570,650**	**5,170,321**

a) Loans and advances to banks

Analysis by type of loans and advances

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Loans	2,856	23,390
Time deposits	506,322	437,427
Purchased receivables	1,505	1,505
	510,683	**462,322**
Allowance for impairment (note 5.17.b)	(576)	-
Total	**510,107**	**462,322**

b) Loans and advances to customers

Analysis by type of loans and advances

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Loans	6,958,796	4,661,317
Finance lease receivables	169,806	-
Overdrafts	305,600	176,171
Credit card business	115,225	59,394
Called guarantees	9,658	7,658
	7,559,085	**4,904,540**
Allowance for impairment (note 5.17.)	(646,752)	(317,063)
Total	**6,912,333**	**4,587,477**

Analysis of loans and advances by sector

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Government	457,080	358,675
Financial organisations	77,202	268,184
Companies	3,006,105	1,878,056
Individuals	3,371,946	2,082,562
Total	**6,912,333**	**4,587,477**

Finance leases

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

in EUR thousands

NLB Group	31 Dec 2017
The gross investment in finance leases by maturity	
- not later than 1 year	57,816
- later than 1 year and not later than 5 years	121,986
- later than 5 years	8,550
	188,352
Unearned future finance income on finance leases	(18,548)
Net investment in finance leases	**169,804**
- present value of minimum lease payments	169,804
The net investment in finance leases by maturity	
- not later than 1 year	51,539
- later than 1 year and not later than 5 years	110,277
- later than 5 years	7,988
Total	**169,804**

As at 31 December 2017, the allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 23,240 thousand.

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

c) Other financial assets

Analysis by type of other financial assets

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Credit card receivables	24,522	19,642
Receivables in the course of collection	13,398	10,467
Debtors	8,018	1,029
Fees and commissions	6,170	4,723
Prepayments	2,204	-
Receivables from purchase agreements for equity securities	163	163
Other financial assets	23,307	5,556
	77,782	**41,580**
Allowance for impairment (note 5.17.c)	(11,705)	(3,191)
Total	**66,077**	**38,389**

Other financial assets include receivables to pension funds for prior pension payments, receivables from insurance companies, claims in enforcement procedures, claims for sold securities and trust services, claims from refunds, paid duties, and legal costs.

Analysis of other financial assets by sector

in EUR thousands

	NLB Group	NLB
	31 Dec 2017	31 Dec 2017
Banks	16,519	10,308
Government	14,819	1,761
Financial organisations	13,855	9,222
Companies	5,387	2,157
Individuals	15,497	14,941
Total	**66,077**	**38,389**

d) Movement of called non-financial guarantees

in EUR thousands

	NLB Group	NLB
Balance as at 1 January 2017	4,229	3,509
Effects of translation of foreign operations to presentation currency	12	-
Called guarantees	4,101	1,167
Paid guarantees	(4,062)	(508)
Write-offs	(2,905)	(2,905)
Balance as at 31 December 2017	**1,375**	**1,263**

5.9. Held-to-maturity financial assets (IAS 39)

a) Analysis by type of held-to-maturity financial assets

in EUR thousands

NLB Group and NLB	31 Dec 2017
Bonds	609,785
- governments	560,565
- Republic of Slovenia	*353,634*
- other EU members	*206,931*
- banks	45,885
- other issuers	3,335
	609,785
Allowance for impairment	(73)
Total	**609,712**
- quoted	609,712

b) Movements of held-to-maturity financial assets

in EUR thousands

NLB Group and NLB	
Balance as at 1 January 2017	611,449
Additions	74,108
Decreases	(91,071)
Interest income (note 4.1.)	16,446
Impairment (note 4.13.)	10
Exchange differences on monetary assets	(1,230)
Balance as at 31 December 2017	**609,712**

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

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

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Property and equipment	4,349	4,105	1,720	1,483
Equity investment	-	-	-	1,081
Assets of a disposal group classified as held for sale	-	7,526	-	-
Total non-current assets held for sale	**4,349**	**11,631**	**1,720**	**2,564**
Liabilities of a disposal group classified as held for sale	**-**	**440**	**-**	**-**

Item 'Property and equipment' includes business premises, and assets received as collateral that are in the process of sale.

b) Major classes of disposal group classified as held for sale

in EUR thousands

NLB Group	31 Dec 2017
Assets	
Available-for-sale financial assets	3,790
Loans and advances to banks	3,354
Other financial assets	180
Property and equipment	20
Intangible assets	44
Other assets	138
Total assets classified as held for sale	**7,526**
Liabilities	
Other financial liabilities	335
Provisions	61
Other liabilities	44
Total liabilities classified as held for sale	**440**
NET ASSETS CLASSIFIED AS HELD FOR SALE	**7,086**
Accumulated other comprehensive income	
Foreign currency translation adjustment (cumulative)	42
Available-for-sale financial assets valuation	65

c) Disposal of NLB Nov Penziski Fond a.d., Skopje

The details of the assets and liabilities at the date of disposal (March 2018) and disposal consideration is as follows:

	in EUR thousands
Cash, cash balances at cental banks, and other demand deposits at banks	12
Financial assets at fair value through other comprehensive income	3,961
Financial assets at amortised cost	
Loans to banks	3,967
Other financial assets	174
Property and equipment	18
Intangible assets	41
Other assets	137
Other financial liabilities	409
Provisions	60
Other liabilities	59
Net assets of subsidiary	**7,782**
Non-controlling interest	(496)
Carrying amount of net assets disposed of	**7,286**
Total disposal consideration	**19,464**
Cash and cash equivalents in subsidiary sold	(793)
Cash inflow on disposal	**18,671**
The gain on disposal of the subsidiary comprises:	
Consideration for disposal of the subsidiary	19,464
Carrying amount of net assets disposed of	7,286
Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss	(2)
Gains from disposal of subsidiary	**12,176**

d) Analysis of movements

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Balance as at 1 January	11,631	4,263	2,564	1,788
Effects of translation of foreign operations to presentation currency	5	104	-	-
Additions	32	-	-	-
Transfer from/(into) property and equipment (note 5.11.)	381	2,588	242	67
Transfer from/(into) other assets	-	67	-	67
Transfer from/(into) investment property (note 5.12.)	-	(201)	-	(201)
Transfer to non-current assets and disposal group classified as held for sale	-	7,526	-	1,081
Disposals	(7,779)	(745)	(1,195)	(493)
Valuation	79	(1,971)	109	255
Balance as at 31 December	**4,349**	**11,631**	**1,720**	**2,564**

5.11. Property and equipment

in EUR thousands

	NLB Group				NLB			
	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
Balance as at 1 January 2018	321,712	69,940	105,461	497,113	197,666	47,009	58,064	302,739
Effects of translation of foreign operations to presentation currency	(101)	(27)	(86)	(214)	-	-	-	-
Additions	5,264	6,607	4,428	16,299	3,048	4,885	2,130	10,063
Disposals	(488)	(7,286)	(8,686)	(16,460)	-	(4,873)	(4,780)	(9,653)
Impairment (note 4.13.)	(169)	-	-	(169)	-	-	-	-
Transfer to/from investment property (note 5.12.)	(13,012)	-	-	(13,012)	(1,930)	-	-	(1,930)
Transfer to/from non-current assets held for sale (note 5.10.d)	(748)	-	-	(748)	(604)	-	-	(604)
Balance as at 31 December 2018	**312,458**	**69,234**	**101,117**	**482,809**	**198,180**	**47,021**	**55,414**	**300,615**
Depreciation and impairment								
Balance as at 1 January 2018	165,545	53,757	89,456	308,758	128,987	35,336	51,365	215,688
Effects of translation of foreign operations to presentation currency	(18)	(26)	(69)	(113)	-	-	-	-
Disposals	(321)	(7,263)	(8,058)	(15,642)	-	(4,872)	(4,779)	(9,651)
Depreciation (note 4.11.)	7,487	4,880	4,063	16,430	5,061	3,103	1,232	9,396
Impairment (note 4.13.)	474	-	-	474	-	-	-	-
Transfer to/from investment property (note 5.12.)	(4,135)	-	-	(4,135)	(1,390)	-	-	(1,390)
Transfer to/from non-current assets and disposal group held for sale (note 5.10.d)	(367)	-	-	(367)	(362)	-	-	(362)
Balance as at 31 December 2018	**168,665**	**51,348**	**85,392**	**305,405**	**132,296**	**33,567**	**47,818**	**213,681**
Net carrying amount								
Balance as at 31 December 2018	**143,793**	**17,886**	**15,725**	**177,404**	**65,884**	**13,454**	**7,596**	**86,934**
Balance as at 1 January 2018	**156,167**	**16,183**	**16,005**	**188,355**	**68,679**	**11,673**	**6,699**	**87,051**

in EUR thousands

	NLB Group				NLB			
	Land & Buildings	Computers	Other equipment	Total	Land & Buildings	Computers	Other equipment	Total
Cost								
Balance as at 1 January 2017	327,240	73,525	108,068	508,833	201,618	50,659	59,276	311,553
Effects of translation of foreign operations to presentation currency	1,410	217	463	2,090	-	-	-	-
Additions	3,269	5,254	5,555	14,078	2,057	3,982	2,098	8,137
Disposals	(351)	(8,955)	(8,512)	(17,818)	(9)	(7,632)	(3,310)	(10,951)
Transfer to/from investment property (note 5.12.)	(5,846)	-	-	(5,846)	(5,825)	-	-	(5,825)
Transfer to/from non-current assets and disposal group held for sale (note 5.10. b) and d)	(4,010)	(101)	(113)	(4,224)	(175)	-	-	(175)
Balance as at 31 December 2017	**321,712**	**69,940**	**105,461**	**497,113**	**197,666**	**47,009**	**58,064**	**302,739**
Depreciation and impairment								
Balance as at 1 January 2017	162,455	57,006	92,523	311,984	127,710	39,580	53,767	221,057
Effects of translation of foreign operations to presentation currency	416	170	365	951	-	-	-	-
Disposals	(190)	(8,289)	(7,522)	(16,001)	(6)	(7,631)	(3,309)	(10,946)
Depreciation (note 4.11.)	7,732	4,954	4,200	16,886	5,161	3,387	907	9,455
Impairment (note 4.13.)	717	-	-	717	390	-	-	390
Transfer to/from investment property (note 5.12.)	(4,163)	-	-	(4,163)	(4,160)	-	-	(4,160)
Transfer to/from non-current assets held for sale (note 5.10. b) and d)	(1,422)	(84)	(110)	(1,616)	(108)	-	-	(108)
Balance as at 31 December 2017	**165,545**	**53,757**	**89,456**	**308,758**	**128,987**	**35,336**	**51,365**	**215,688**
Net carrying value								
Balance as at 31 December 2017	**156,167**	**16,183**	**16,005**	**188,355**	**68,679**	**11,673**	**6,699**	**87,051**
Balance as at 1 January 2017	**164,785**	**16,519**	**15,545**	**196,849**	**73,908**	**11,079**	**5,509**	**90,496**

NLB Group and NLB had no assets held under finance leases as at 31 December 2018 and 31 December 2017.

The value of assets received by taking possession of collateral and included in property and equipment by NLB Group amounted to EUR 1,418 thousand (31 December 2017: EUR 1,355 thousand), and in NLB amounted to EUR 7 thousand (31 December 2017: EUR 7 thousand) (note 6.1.s).

The net carrying value of assets leased out by NLB Group under operating leases was EUR 2,334 thousand as at 31 December 2018 (31 December 2017: EUR 2,913 thousand). A total of 44.9% of assets leased out relates to motor vehicles (31 December 2017: 58.2%).

5.12. Investment property

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Balance as at 1 January	51,838	83,663	9,257	8,151
Effects of translation of foreign operations to presentation currency	(9)	94	-	-
Additions	99	1,277	-	-
Disposals	(5,687)	(34,743)	(53)	(60)
Transfer from/(into) property and equipment (note 5.11.)	8,877	1,683	540	1,665
Transfer from/(into) non-current assets and disposal group held for sale (note 5.10.d)	-	201	-	201
Transfer from/(into) other assets	3,570	817	2,178	1,286
Net valuation to fair value (note 4.8. and 4.9.)	(44)	(1,154)	104	(1,986)
Balance as at 31 December	**58,644**	**51,838**	**12,026**	**9,257**

The value of assets received by taking possession of collateral and included in investment property by NLB Group amounted to EUR 38,747 thousand (31 December 2017: EUR 40,809 thousand), and in NLB amounted to EUR 6,464 thousand (31 December 2017: EUR 4,286 thousand) (note 6.1.s).

Operating expenses arising from investment properties:

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Leased to others	1,155	1,076	432	323
Not leased to others	455	27	412	3
Total	**1,610**	**1,103**	**844**	**326**

Future minimum operating lease income from investment property:

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Not later than one year	2,941	2,859	603	430
Later than one year and not later than five years	5,801	3,038	2,097	1,424
Later than five years	336	97	236	-
Total	**9,078**	**5,994**	**2,936**	**1,854**

NLB Group realised rental income arising from investment properties in the amount of EUR 4,759 thousand (2017: EUR 5,440 thousand), and NLB in the amount of EUR 543 thousand (2017: EUR 381 thousand) (note 4.8.).

5.13. Intangible assets

in EUR thousands

	NLB Group			NLB
	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1 January 2018	232,296	32,336	264,632	203,742
Effects of translation of foreign operations to presentation currency	(43)	-	(43)	-
Additions	10,798	-	10,798	7,615
Write-offs	(28,708)	-	(28,708)	(28,649)
Balance as at 31 December 2018	**214,343**	**32,336**	**246,679**	**182,708**
Amortisation and impairment				
Balance as at 1 January 2018	200,851	28,807	229,658	179,831
Effects of translation of foreign operations to presentation currency	(35)	-	(35)	-
Amortisation (note 4.11.)	10,794	-	10,794	8,135
Write-offs	(28,706)	-	(28,706)	(28,649)
Balance as at 31 December 2018	**182,904**	**28,807**	**211,711**	**159,317**
Net carrying value				
Balance as at 31 December 2018	**31,439**	**3,529**	**34,968**	**23,391**
Balance as at 1 January 2018	**31,445**	**3,529**	**34,974**	**23,911**

in EUR thousands

	NLB Group			NLB
	Software licenses	Goodwill	Total	Software licenses
Cost				
Balance as at 1 January 2017	222,605	32,336	254,941	196,455
Effects of translation of foreign operations to presentation currency	340	-	340	-
Additions	15,246	-	15,246	12,466
Transfer to non-current assets and disposal group held for sale (note 5.10.b)	(293)	-	(293)	-
Write-offs	(5,602)	-	(5,602)	(5,179)
Balance as at 31 December 2017	**232,296**	**32,336**	**264,632**	**203,742**
Amortisation and impairment				
Balance as at 1 January 2017	192,164	28,807	220,971	173,110
Effects of translation of foreign operations to presentation currency	233	-	233	-
Amortisation (note 4.11.)	10,916	-	10,916	8,555
Transfer to non-current assets and disposal group held for sale (note 5.10.b)	(249)	-	(249)	-
Write-offs	(2,213)	-	(2,213)	(1,834)
Balance as at 31 December 2017	**200,851**	**28,807**	**229,658**	**179,831**
Net carrying value				
Balance as at 31 December 2017	**31,445**	**3,529**	**34,974**	**23,911**
Balance as at 1 January 2017	**30,441**	**3,529**	**33,970**	**23,345**

5.14. Investments in subsidiaries, associates and joint ventures

a) Analysis by type of investment in subsidiaries

in EUR thousands

NLB	31 Dec 2018	31 Dec 2017
Banks	277,160	277,160
Other financial organisations	18,819	18,819
Enterprises	54,754	53,966
Total	**350,733**	**349,945**

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2018:

in EUR thousands

	Nature of Business	Country of Incorporation	Equity as at 31 Dec 2018	Profit/(loss) for 2018	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	199,808	37,068	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	68,937	10,033	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	87,218	16,184	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	71,786	14,836	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	80,174	8,757	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	67,686	5,202	99.997	99.997	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	30,110	(536)	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	9,321	4,324	100	100	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	450	(870)	100	100	100	100
Non-core members								
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	15,472	4,582	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	2,884	(946)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	105	(453)	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	5,448	259	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	4,577	(180)	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	1,062	87	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	18,496	1,568	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	20,377	(648)	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	1,726	1,184	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	29	(15)	-	-	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	167	(143)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	135	(99)	100	100	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	2,027	(328)	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republic of Serbia	862	(753)	100	100	100	100
S-REAM d.o.o, Ljubljana	Real estate	Republic of Slovenia	1,753	(47)	100	100	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	1,597	928	-	-	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	22	(36)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	7,682	210	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague - v likvidaci	Finance	Czech Republic	177	(30)	-	-	100	100
NLB InterFinanz d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	(21)	(5)	-	-	100	100
Prospera plus d.o.o., Ljubljana - v likvidaciji	Tourist and catering trade	Republic of Slovenia	162	(323)	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	3,543	780	100	100	100	100

Data of subsidiaries as included in the consolidated financial statements of NLB Group as at 31 December 2017:

in EUR thousands

	Nature of Business	Country of Incorporation	Equity as at 31.12,2017	Profit/(loss) for 2017	NLB's shareholding %	NLB's voting rights%	NLB Group's shareholding %	NLB Group's voting rights%
Core members								
NLB Banka a.d., Skopje	Banking	Republic of Macedonia	156,609	40,004	86.97	86.97	86.97	86.97
NLB Banka a.d., Podgorica	Banking	Republic of Montenegro	66,975	5,385	99.83	99.83	99.83	99.83
NLB Banka a.d., Banja Luka	Banking	Republic of Bosnia and Herzegovina	84,440	23,694	99.85	99.85	99.85	99.85
NLB Banka sh.a., Prishtina	Banking	Republic of Kosovo	66,705	14,197	81.21	81.21	81.21	81.21
NLB Banka d.d., Sarajevo	Banking	Republic of Bosnia and Herzegovina	69,086	8,300	97.34	97.35	97.34	97.35
NLB Banka a.d., Belgrade	Banking	Republic of Serbia	61,443	3,731	99.997	99.997	99.997	99.997
NLB Srbija d.o.o., Belgrade	Real estate	Republic of Serbia	30,582	1,484	100	100	100	100
NLB Skladi d.o.o., Ljubljana	Finance	Republic of Slovenia	8,744	3,747	100	100	100	100
NLB Nov penziski fond a.d., Skopje	Insurance	Republic of Macedonia	7,513	1,218	51	51	100	100
NLB Crna Gora d.o.o., Podgorica	Real estate	Republic of Montenegro	1,320	82	100	100	100	100
Non-core members								
NLB Leasing d.o.o. - v likvidaciji, Ljubljana	Finance	Republic of Slovenia	11,119	951	100	100	100	100
Optima Leasing d.o.o., Zagreb - "u likvidaciji"	Finance	Republic of Croatia	3,821	(967)	-	-	100	100
NLB Leasing Podgorica d.o.o., Podgorica - "u likvidaciji"	Finance	Republic of Montenegro	558	(295)	100	100	100	100
NLB Leasing d.o.o., Belgrade - u likvidaciji	Finance	Republic of Serbia	5,181	489	100	100	100	100
NLB Leasing d.o.o., Sarajevo	Finance	Republic of Bosnia and Herzegovina	6,011	6,730	100	100	100	100
NLB Lizing d.o.o.e.l., Skopje - vo likvidacija	Finance	Republic of Macedonia	981	101	100	100	100	100
Tara Hotel d.o.o., Budva	Real estate	Republic of Montenegro	16,927	154	12.71	12.71	100	100
PRO-REM d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	21,025	1,213	100	100	100	100
OL Nekretnine d.o.o., Zagreb - u likvidaciji	Real estate	Republic of Croatia	538	(124)	-	-	100	100
BH-RE d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	12	(12)	-	-	100	100
REAM d.o.o., Zagreb	Real estate	Republic of Croatia	665	(114)	100	100	100	100
REAM d.o.o., Podgorica	Real estate	Republic of Montenegro	309	(133)	100	100	100	100
REAM d.o.o., Belgrade	Real estate	Republic of Serbia	231	(77)	100	100	100	100
SR-RE d.o.o., Belgrade	Real estate	Republic of Serbia	2,349	426	100	100	100	100
SPV 2 d.o.o., Belgrade	Real estate	Republic of Serbia	1,613	(25)	100	100	100	100
NLB Propria d.o.o., Ljubljana - v likvidaciji	Real estate	Republic of Slovenia	398	(483)	100	100	100	100
CBS Invest d.o.o., Sarajevo	Real estate	Republic of Bosnia and Herzegovina	55	(38)	100	100	100	100
NLB InterFinanz AG, Zürich in Liquidation	Finance	Switzerland	7,750	(1,771)	100	100	100	100
NLB InterFinanz Praha s.r.o., Prague	Finance	Czech Republic	209	302	-	-	100	100
NLB InterFinanz d.o.o., Belgrade	Finance	Republic of Serbia	(16)	(17)	-	-	100	100
Prospera plus d.o.o., Ljubljana - v likvidaciji	Tourist and catering trade	Republic of Slovenia	185	(240)	100	100	100	100
LHB AG, Frankfurt	Finance	Republic of Germany	6,412	3,916	100	100	100	100

Changes in ownership interest in subsidiaries of NLB Group in 2018 and 2017 are presented in note 3.

Data of subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousands

	NLB Banka, Skopje		NLB Banka, Prishtina	
	2018	**2017**	**2018**	**2017**
Non-controlling interest in equity in %	13.03	13.03	18.79	18.79
Non-controlling interest's voting rights in %	13.03	13.03	18.79	18.79
Income statement and statement of comprehensive income				
Revenues	82,103	82,983	38,462	34,741
Profit/(loss) for the year	**37,068**	**40,004**	**14,836**	**14,197**
Attributable to non-controlling interest	4,830	5,213	2,788	2,668
Other comprehensive income	(938)	1,311	721	(183)
Total comprehensive income	**36,130**	**41,315**	**15,557**	**14,014**
Attributable to non-controlling interest	4,708	5,383	2,923	2,633
Paid dividends to non-controlling interest	1,122	1,795	1,974	1,908
Statement of financial position				
Current assets	662,750	657,436	338,536	320,580
Non-current assets	687,301	578,475	329,591	263,506
Current liabilities	936,248	871,453	494,208	430,501
Non-current liabilities	213,995	207,849	102,133	86,880
Equity	**199,808**	**156,609**	**71,786**	**66,705**
Attributable to non-controlling interest	26,035	20,406	13,489	12,534

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

in EUR thousands

	NLB Group		NLB	
Carrying amount of the NLB Group's interest	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Other financial organisations	37,147	43,765	4,465	6,600
Enterprises	-	-	312	332
Total	**37,147**	**43,765**	**4,777**	**6,932**

In 2018, NLB sold its associate Skupna pokojninska družba, d.o.o., Ljubljana (note 4.13.).

NLB Group’s associates

in EUR thousands

			2018		2017	
	Nature of Business	Country of Incorporation	Shareholding %	Voting rights %	Shareholding %	Voting rights %
Bankart d.o.o., Ljubljana	Card processing	Republic of Slovenia	39.44	39.44	39.44	39.44
Skupna pokojninska družba d.d., Ljubljana	Insurance	Republic of Slovenia	-	-	28.13	28.13
ARG - Nepremičnine d.o.o., Horjul	Real estate	Republic of Slovenia	75.00	75.00	75.00	75.00

By contractual agreement between the shareholders, NLB does not control ARG-Nepremičnine, Horjul, but does have a significant influence. Therefore, the entity is accounted as an associate.

Carrying amount of interests in associates included in the consolidated financial statements of NLB Group:

in EUR thousands

	2018	2017
Carrying amount of the NLB Group's interest	**7,243**	**11,781**
NLB Group's share of:		
- Profit for the year	1,281	1,338
- Other comprehensive income	(59)	40
- Total comprehensive income	**1,222**	**1,378**

In 2018 NLB Group did not recognise a share of profit of an associate in the amount of EUR 83 thousand (31 December 2017: unrecognised profit EUR 65 thousand), as it still has the cumulative unrecognised share of losses of an associate that as at 31 December 2018 amounted to EUR 2,254 thousand (31 December 2017: EUR 2,337 thousand).

NLB Group’s joint ventures

			2018	2017
	Nature of Business	Country of Incorporation	Voting rights%	Voting rights%
NLB Vita d.d., Ljubljana	Insurance	Republic of Slovenia	50	50
Prvi Faktor Group, Ljubljana	Finance	Republic of Slovenia	50	50

Summarised financial information on material joint venture NLB Vita, Ljubljana included in the consolidated financial statements of NLB Group:

in EUR thousands

NLB Vita d.d., Ljubljana	2018	2017
Revenues	88,492	80,747
Interest income	7,829	7,310
Interest expense	(2)	(2)
Depreciation and amortisation	(241)	(212)
Income tax	(1,835)	(1,520)
Profit for the year	**8,330**	**6,889**
Other comprehensive income	(10,424)	298
Total comprehensive income	**(2,094)**	**7,186**
NLB Group's share of:		
- Profit for the year	4,165	3,444
- Other comprehensive income	(5,212)	149
	31 Dec 2018	**31 Dec 2017**
Total assets	457,929	453,028
Cash and cash equivalents	35	28
Total liabilities	398,122	389,060
Equity	**59,807**	**63,968**
NLB Group's ownership interest in joint venture	29,904	31,984
Carrying amount of the NLB Group's interest in joint venture	**29,904**	**31,984**

c) Movements of investments in associates and joint ventures

in EUR thousands

NLB Group	2018	2017
Balance as at 1 January	43,765	43,248
Disposal	(5,077)	-
Share of results before tax	7,201	5,585
Share of tax	(1,755)	(803)
Net gains/(losses) recognised in other comprehensive income	(5,273)	189
Dividends received	(1,714)	(4,215)
Liquidation of associate	-	(239)
Balance as at 31 December	**37,147**	**43,765**

5.15. Other assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Assets, received as collateral (note 6.1.s)	60,173	77,500	5,815	4,811
Inventories	3,346	8,879	378	335
Deferred expenses	5,247	4,324	3,862	2,886
Claim for taxes and other dues	1,421	1,675	400	375
Prepayments	784	971	182	285
Total	**70,971**	**93,349**	**10,637**	**8,692**

Assets, received as collateral and inventories on NLB Group in the amount of EUR 59,540 thousand (31 December 2017: EUR 76,222 thousand), and on NLB in the amount of EUR 5,815 thousand (31 December 2017: EUR 4,811 thousand) consist of real estate.

5.16. Movements in allowance for the impairment of financial assets

a) Movements in allowance for the impairment of loans and receivables measured at amortised cost

in EUR thousands

NLB Group	Balance as at 1 Jan 2018	Exchange differences on opening balances	Transfer	Increases/ Decreases	Write-offs	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2018	Repayments of written-off receivables
12-month expected credit losses									
Loans and advances to individuals	15,291	-	14,182	(12,238)	-	(74)	1	**17,162**	-
Loans and advances to legal entities	20,040	(54)	6,104	(144)	(29)	(1,540)	39	**24,416**	-
Other financial assets	171	-	85	(49)	(33)	6	2	**182**	-
Lifetime ECL not credit-impaired									
Loans and advances to individuals	8,307	-	(8,357)	7,849	-	461	3	**8,263**	-
Loans and advances to legal entities	25,896	(59)	4,216	(2,856)	(13)	118	(28)	**27,274**	-
Other financial assets	25	-	71	(40)	(25)	(1)	28	**58**	-
Lifetime ECL credit-impaired									
Loans and advances to individuals	60,513	-	(5,825)	13,578	(10,685)	1,426	47	**59,054**	3,278
Loans and advances to legal entities	420,557	1,345	(10,320)	(8,640)	(84,270)	(173)	(975)	**317,524**	22,667
Other financial assets	10,672	1	(156)	1,143	(3,496)	7	(215)	**7,956**	467
Of which: Purchased credit-impaired financial assets									
Loans and advances to legal entities	1,680	-	-	504	-	-	-	**2,184**	-
Other financial assets	-	-	-	1	-	-	-	**1**	-

in EUR thousands

NLB	Balance as at 1 Jan 2018	Exchange differences on opening balances	Transfer	Increases/ Decreases	Write-offs	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2018	Repayments of written-off receivables
12-month expected credit losses									
Loans and advances to individuals	4,908	-	5,288	(3,651)	-	(191)	1	**6,355**	-
Loans and advances to legal entities	11,396	-	(661)	156	(28)	(379)	27	**10,511**	-
Other financial assets	24	-	12	(9)	(4)	4	-	**27**	-
Lifetime ECL not credit-impaired									
Loans and advances to individuals	2,050	-	(2,701)	1,619	-	284	3	**1,255**	-
Loans and advances to legal entities	4,266	-	13,054	(7,165)	(11)	1,261	-	**11,405**	-
Other financial assets	5	-	18	(17)	-	-	-	**6**	-
Lifetime ECL credit-impaired									
Loans and advances to individuals	20,009	-	(2,587)	5,286	(5,529)	1,121	47	**18,347**	1,313
Loans and advances to legal entities	210,321	-	(12,393)	(16,468)	(26,750)	58	(5)	**154,763**	9,451
Other financial assets	2,637	-	(30)	419	(1,174)	3	-	**1,855**	420
Of which: Purchased credit-impaired financial assets									
Loans and advances to legal entities	1,656	-	-	489	-	-	-	**2,145**	-
Other financial assets	-	-	-	1	-	-	-	**1**	-

The contractual amount outstanding on financial assets that were written off during the year ending 31 December 2018 and that are still subject to enforcement activity for NLB Group amounted to EUR 41,116 thousand, and for NLB amounted to EUR 9,598 thousand.

b) Changes in gross carrying amount of financial assets

In year 2018 the gross carrying amount of loans and advances to banks decreased by EUR 391,861 thousand for NLB Group, and EUR 352,025 thousand for NLB, but since all loans to the bank are classified in Stage 1, this only decreased balance of loss allowance for EUR 587 thousand at NLB Group level and for EUR 415 thousand on NLB level. Changes in gross carrying amounts of loans to customers were less material (increase of 1.7% on NLB Group and decrease of 3.1% on NLB) and did not contribute significantly to balances of loss allowance either.

c) Movements in allowance for the impairment of debt securities

in EUR thousands

NLB Group	Balance as at 1 Jan 2018	Exchange differences on opening balances	Transfer	Increases/ decreases	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2018
12-month expected credit losses							
Debt securities measured at amortised cost	2,169	(4)	-	728	5	-	**2,898**
Debt securities measured at fair value through other comprehensive income	3,696	1	(108)	28	(21)	1	**3,597**
Lifetime ECL not credit-impaired							
Debt securities measured at fair value through other comprehensive income	-	-	108	(33)	-	-	**75**
Lifetime ECL credit-impaired							
Debt securities measured at fair value through other comprehensive income	798	-	-	-	-	-	**798**

in EUR thousands

NLB	Balance as at 1 Jan 2018	Exchange differences on opening balances	Transfer	Increases/ decreases	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2018
12-month expected credit losses							
Debt securities measured at amortised cost	1,298	-	-	20	5	-	**1,323**
Debt securities measured at fair value through other comprehensive income	1,392	-	-	169	(21)	1	**1,541**
Lifetime ECL credit-impaired							
Debt securities measured at fair value through other comprehensive income	798	-	-	-	-	-	**798**

5.17. Movements in allowance for the impairment of banks, loans, and advances to customers and other financial assets (IAS 39)

a) Impairment of loans and advances to individuals

in EUR thousands

NLB Group	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1 January 2017	**16,138**	**31,867**	**36,366**	**14,845**	**99,216**
Effects of translation of foreign operations to presentation currency	40	84	252	(413)	(37)
Impairment (note 4.13.)	2,157	(1,072)	4,408	3,423	8,916
Write-offs	(4,725)	(1,405)	(1,546)	(4,421)	(12,097)
Repayments of written-off receivables	823	210	235	750	2,018
Exchange differences	-	(236)	(3)	434	195
Other	-	-	-	(4)	(4)
Balance as at 31 December 2017	**14,433**	**29,448**	**39,712**	**14,614**	**98,207**

in EUR thousands

NLB	Granted overdrafts	Loans for houses and flats	Consumer loans	Other loans	Total
Balance as at 1 January 2017	**12,754**	**18,422**	**6,211**	**1,682**	**39,069**
Impairment (note 4.13.)	1,513	97	(18)	1,376	2,968
Write-offs	(1,817)	(976)	(456)	(359)	(3,608)
Repayments of written-off recievables	-	20	-	354	374
Exchange differences	-	(198)	-	-	(198)
Balance as at 31 December 2017	**12,450**	**17,365**	**5,737**	**3,053**	**38,605**

b) Impairment of loans and advances to legal entities

in EUR thousands

NLB Group	Loans and advances to government	Loans and advances to banks	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to Small- and medium-sized enterprises	Total
Balance as at 1 January 2017	**16,676**	**349**	**29,833**	**242,499**	**515,177**	**804,534**
Effects of translation of foreign operations to presentation currency	14	4	3	(465)	(249)	(693)
Impairment (note 4.13.)	(7,706)	187	(2,244)	(34,422)	(5,862)	(50,047)
Write-offs	(352)	-	(22,596)	(45,633)	(141,024)	(209,605)
Repayments of written-off receivables	318	36	22	2,659	10,842	13,877
Exchange differences	(10)	-	(22)	742	1,609	2,319
Disposal of subsidiary	-	-	-	(4,153)	(6,898)	(11,051)
Other	-	-	-	-	(213)	(213)
Balance as at 31 December 2017	**8,940**	**576**	**4,996**	**161,227**	**373,382**	**549,121**

in EUR thousands

NLB	Loans and advances to government	Loans and advances to financial organisations	Loans and advances to large corporate customers	Loans and advances to Small- and medium-sized enterprises	Total
Balance as at 1 January 2017	**6,057**	**50,797**	**167,142**	**241,683**	**465,679**
Impairment (note 4.13.)	(1,891)	(15,569)	(22,068)	(3,221)	(42,749)
Write-offs	-	(23,522)	(40,580)	(84,507)	(148,609)
Repayments of written-off receivables	210	-	1,617	2,383	4,210
Exchange differences	-	(22)	(21)	(30)	(73)
Balance as at 31 December 2017	**4,376**	**11,684**	**106,090**	**156,308**	**278,458**

c) Impairment of other financial assets

in EUR thousands

	NLB Group	NLB
Balance as at 1 January 2017	**15,453**	**3,771**
Effects of translation of foreign operations to presentation currency	65	-
Impairment (note 4.13.)	1,130	587
Write-offs	(5,043)	(1,189)
Exchange differences	(17)	-
Repayments of written-off receivables	117	22
Balance as at 31 December 2017	**11,705**	**3,191**

5.18. Financial liabilities, measured at amortised cost

Analysis by type of financial liabilities, measured at the amortised cost

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Deposits from banks and central banks	26,775	40,602	48,903	72,072
Borrowings from banks and central banks	258,423	279,616	244,133	260,747
Due to customers	10,464,017	9,878,378	7,033,409	6,810,967
Borrowings from other customers	61,844	74,286	4,128	5,726
Subordinated liabilities	15,050	27,350	-	-
Other financial liabilities	100,887	111,019	62,212	71,534
Total	**10,926,996**	**10,411,251**	**7,392,785**	**7,221,046**

a) Deposits from banks and central banks and amounts due to customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Deposits on demand				
- banks and central banks	23,191	36,331	41,949	71,383
- other customers	8,281,230	7,332,344	6,084,776	5,455,657
- governments	214,770	203,228	83,258	80,325
- financial organisations	120,906	156,713	106,060	140,379
- companies	1,857,646	1,692,840	1,111,963	1,042,298
- individuals	6,087,908	5,279,563	4,783,495	4,192,655
Other deposits				
- banks and central banks	3,584	4,271	6,954	689
- other customers	2,182,787	2,546,034	948,633	1,355,310
- governments	46,328	52,727	35,838	44,343
- financial organisations	91,906	129,030	8,196	66,826
- companies	266,857	281,527	165,952	185,156
- individuals	1,777,696	2,082,750	738,647	1,058,985
Total	**10,490,792**	**9,918,980**	**7,082,312**	**6,883,039**

b) Borrowings from banks and central banks and other customers

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loans				
- banks and central banks	258,423	279,616	244,133	260,747
- other customers	61,844	74,286	4,128	5,726
- governments	10,582	17,058	-	-
- financial organisations	45,417	49,257	-	-
- companies	5,845	7,971	4,128	5,726
Total	**320,267**	**353,902**	**248,261**	**266,473**

As at 31 December 2018, NLB Group and NLB had EUR 343,653 thousand in undrawn borrowings (31 December 2017: EUR 341,691 thousand).

c) Subordinated liabilities

in EUR thousands

				31 Dec 2018		31 Dec 2017	
NLB Group	Currency	Due date	Interest rate	Carrying amount	Nominal value	Carrying amount	Nominal value
Subordinated loans							
	EUR	30 Jun 2018	6 months EURIBOR +5% p.a.	-	-	12,221	12,000
	EUR	30 Jun 2020	6 months EURIBOR + 7.7% p.a.	5,110	5,000	5,132	5,000
	EUR	30 Jun 2025	6 months EURIBOR + 6.25% p.a.	9,940	10,000	9,997	10,000
Total				**15,050**	**15,000**	**27,350**	**27,000**

d) Other financial liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Debit or credit card payables	22,567	36,578	20,511	32,132
Items in the course of payment	20,360	20,931	4,451	4,393
Accrued expenses	11,988	11,343	4,741	4,456
Suppliers	16,404	14,826	13,191	11,146
Accrued salaries	9,510	9,665	6,595	6,662
Fees and commissions	1,861	1,682	1,802	1,627
Unused annual leave (note 2.3.)	3,645	-	2,389	-
Other financial liabilities	14,552	15,994	8,532	11,118
Total	**100,887**	**111,019**	**62,212**	**71,534**

Other financial liabilities mainly include liabilities to insurance companies, liabilities to employees, received warranties, obligation for purchase of securities and trust services.

5.19. Provisions

a) Analysis by type of provisions

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Provisions for guarantees and commitments (note 5.26.a)	39,082	36,915	29,516	34,257
Employee benefit provisions	15,404	20,440	13,158	16,712
Restructuring provisions	12,363	15,284	11,942	14,687
Provisions for legal risks	13,076	15,786	2,180	4,958
Other provisions	209	214	198	203
Total	**80,134**	**88,639**	**56,994**	**70,817**

Legal issues

Provisions for legal risks are formed based on expectations regarding the probable outcome of legal disputes.

As at 31 December 2018, NLB Group was involved in 34 (31 December 2017: 38) legal disputes with material claims against group members in the total amount of EUR 374.620 thousand, excluding accrued interest (31 December 2017: EUR 585.406 thousand). As at 31 December 2018, NLB was involved in 17 (31 December 2017: 19) legal disputes with material monetary claims against NLB. The total amount of these claims, excluding accrued interest, was EUR 205.686 thousand (31 December 2017: EUR 399.824 thousand).

In connection with legal issues, the biggest amount of material monetary claims relates to civil claims filed by Privredna banka Zagreb (the PBZ) and Zagrebačka banka (the ZaBa) against NLB, referring to the old savings of LB Branch Zagreb savers, which were transferred to these two banks in a principal amount of approximately EUR 168,5 million. Due to the fact the proceedings have been pending for such a long time, the penalty interest already exceeds the principal amount. As NLB is not liable for the old foreign currency savings, based on numerous process and content-related reasons, NLB has all along objected to these claims. Two key reasons NLB is not liable for the old foreign currency savings are that it was only founded on the basis of the Constitutional Act on 27 July 1994 (at the time the savings were deposited with LB Branch Zagreb, NLB did not yet exist), and NLB did not assume any such obligations. Moreover, this is a former Yugoslavia succession matter, as the governments of the Republic of Slovenia and the Republic of Croatia agreed in a Memorandum of Understanding signed in 2013 whose intent was to find a solution to the transferred foreign currency savings of Ljubljanska banka in Croatia (LB) on the basis of the Agreement on Succession Issues. The Memorandum also said that the Republic of Croatia would ensure the stay all the proceedings commenced by the PBZ and the ZaBa in relation to the transferred foreign currency savings until the issue was finally resolved.

Despite the agreement in the Memorandum of Understanding to stay all the proceedings commenced, the Court of Appeal, the County Court of Zagreb, ruled in five claims (as explained bellow in details) in favour of the plaintiff. In three of those cases, NLB filed a constitutional suit and in four an extraordinary legal measure with the Supreme Court of the Republic of Croatia (two of these proceedings have already been completed with the Supreme Court of the Republic of Croatia and the challenging of the court decisions in these cases continues with the Constitutional Court of the Republic of Croatia).

Contrary to the decisions of the court described above in another case, a claim filed by the PBZ was refused and the judgment became final in favour of NLB. The extraordinary legal measure with the Supreme Court of the Republic of Croatia, filed by the plaintiff, was dismissed by Supreme Court on 16 June 2015.

In the other cases, with respect to which court procedures described above are pending, final court decisions have not yet been issued.

The table below summarises amounts according to final court decisions (not including penalty interest).

Date of the ruling	Plaintiff	Principal amount in EUR	Costs of the proceedings in HRK	Measures taken by NLB
May 2015	PBZ	254.76	15,781.25	Constitutional suit against the final judgement, as NLB found the court decision contrary to the legislation in force and constitutional principles and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia. Constitutional Court of the Republic of Croatia rejected the constitutional appeal of NLB d.d. on 21 May 2018.
April 2018	PBZ	222,426.39	253,283.37	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles, and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia.
September 2017	ZaBa	492,430.53	748,583.75	Constitutional suit against the court decisions (including the decision of the Supreme Court of the Republic of Croatia in the revision proceeding), as NLB found the court decision contrary to the legislation in force and constitutional principles, and as well contrary to the Memorandum concluded between the Republic of Slovenia and the Republic of Croatia.
November 2017	PBZ	220,115.98	688,268.12	NLB challenged the judgments with the extraordinary legal measure (revision) on the Supreme Court of the Republic of Croatia and later, if necessary, will challenge the judgments with all other available remedies of the obligations of the old foreign currency savings in accordance with Slovenian Constitutional Law are not the liabilities of NLB.
December 2018	PBZ	375,938.42	679,926.08	

NLB Shareholders' Meeting provided the Management Board of NLB with instructions how to act in the event of existing or potential new final decisons by Croatian courts against LB and NLB regarding the transferred foreign currency deposits, and especially not to voluntarily settle the adjudicated amounts, and also gave some additional instructions on the usage of legal remedies and regarding the management of the property from that perspective.

On 19 July 2018, the National Assembly of the Republic of Slovenia passed the Act for Value Protection of Republic of Slovenia's Capital Investment in Nova Ljubljanska banka d.d., Ljubljana (Zakon za zaščito vrednosti kapitalske naložbe Republike Slovenije v Novi Ljubljanski banki d.d., Ljubljana, hereinafter: the ZVKNNLB) which entered into force on 14 August 2018. In accordance with the ZVKNNLB the Succession Fund of the Republic of Slovenia (Sklad Republike Slovenije za nasledstvo, javni sklad, hereinafter: the Fund) shall compensate NLB for the sums recovered from NLB by enforcement of final judgements delivered by Croatian courts with regard to the transferred foreign currency deposits, that is the principle amount, accrued interest, expenses of court, Attorney's expenses, and other expenses of the plaintiff and expenses related to enforcement with the accrued interest. The Fund shall not compensate NLB for its own costs or for the difference between the book value of its assets sold in enforcement proceedings and the price obtained for such assets in enforcement proceedings. There shall also be no compensation for any voluntarily made payments by NLB. In accordance with the ZVKNNLB and pursuant to the agreement between NLB and the Fund, as envisaged by the ZVKNNLB (which was concluded on 14 August 2018), NLB has to contest the claims made against it in court proceedings in relation to transferred foreign currency deposits and use against court decisions that are disadvantageous for NLB, all reasonable legal remedies and to continue to actively challenge the judicial decisions of the courts of the Republic of Croatia in relation to transferred foreign currency deposits on the basis of which enforcement took place, leading, on the basis of ZVKNNLB, to the compensation of the sums recovered from NLB by enforcement. In the aforementioned case from May 2015, the Succession Fund of the Republic of Slovenia has already compensated the sums recovered from NLB by enforcement.

All procedures related to claims filed by PBZ and ZaBa and NLB's view on this topic have been communicated to ECB, also in its role as regulator of both Croatian banks.

Provisions for legal risks for claims filed by PBZ and ZaBa are not formed, since NLB believes that based on the factual and legal evaluation there are greater prospects for the court proceedings to end in favour of NLB than opposite.

b) Movements in provisions for guarantees and commitments

in EUR thousands

NLB Group	Balance as at 1 Jan 2018	Exchange differences on opening balances	Transfer	Increases/ decreases	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2018
12-month expected credit losses							
Guarantees and commitments	6,928	(12)	2,424	169	(470)	5	**9,044**
Lifetime ECL not credit-impaired							
Guarantees and commitments	4,833	(8)	(1,779)	337	(110)	(9)	**3,264**
Lifetime ECL credit-impaired							
Guarantees and commitments	30,504	(6)	(645)	(2,869)	(213)	3	**26,774**
Of which: Purchased credit-impaired financial assets							
Guarantees and commitments	-	-	-	688	-	-	**688**

in EUR thousands

NLB	Balance as at 1 Jan 2018	Exchange differences on opening balances	Transfer	Increases/ decreases	Changes in models/risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2018
12-month expected credit losses							
Guarantees and commitments	2,946	-	273	1,040	(189)	1	**4,071**
Lifetime ECL not credit-impaired							
Guarantees and commitments	450	-	10	328	33	-	**821**
Lifetime ECL credit-impaired							
Guarantees and commitments	27,276	-	(283)	(2,365)	(4)	-	**24,624**
Of which: Purchased credit-impaired financial assets							
Guarantees and commitments	-	-	-	688	-	-	**688**

c) Movements in provisions for guarantees and commitments (IAS 39)

Financial guarantees

in EUR thousands

	NLB Group	NLB
	2017	**2017**
Balance as at 1 January	25,327	23,131
Effects of translation of foreign operations to presentation currency	11	-
Additional provisions/provisions released (note 4.12.)	(2,587)	(2,069)
Utilised during year	(13,254)	(13,254)
Exchange differences	(3)	(2)
Balance as at 31 December	**9,494**	**7,806**

Non-financial guarantees

in EUR thousands

	NLB Group	NLB
	2017	2017
Balance as at 1 January	22,745	21,777
Effects of translation of foreign operations to presentation currency	4	-
Additional provisions/provisions released (note 4.12.)	(3,024)	(2,716)
Exchange differences	(1)	8
Balance as at 31 December	**19,724**	**19,069**

Other credit commitments

in EUR thousands

	NLB Group	NLB
	2017	2017
Balance as at 1 January	5,609	4,957
Effects of translation of foreign operations to presentation currency	2	-
Additional provisions/provisions released (note 4.12.)	2,151	2,489
Exchange differences	(65)	(64)
Balance as at 31 December	**7,697**	**7,382**

d) Movements in employee benefit provisions

Post-employment benefits

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Balance as at 1 January	14,144	13,130	12,338	10,886
Effects of translation of foreign operations to presentation currency	(3)	9	-	-
Transfer to non-current assets and disposal group held for sale	-	(9)	-	-
Additional provisions (note 4.10.)	928	559	599	462
Provisions released (note 4.10.)	(585)	(465)	(530)	-
Interest expenses (note 4.1.)	172	188	108	93
Utilised during year (payments)	(333)	(90)	(43)	(53)
Actuarial gains and losses	(1,166)	822	(884)	950
Balance as at 31 December	**13,157**	**14,144**	**11,588**	**12,338**

Other employee benefits

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Balance as at 1 January	6,296	6,628	4,374	4,498
Effects of translation of foreign operations to presentation currency	(3)	11	-	-
Transfer to non-current assets and disposal group held for sale	-	(52)	-	-
Transfer to other liabilities (note 2.3.)	(3,613)	-	(2,312)	-
Additional provisions (note 4.10.)	243	4,131	91	2,584
Provisions released (note 4.10.)	(447)	(176)	(385)	-
Interest expenses (note 4.1.)	49	54	18	17
Utilised during year	(278)	(4,300)	(216)	(2,725)
Balance as at 31 December	**2,247**	**6,296**	**1,570**	**4,374**

Other employee benefits include NLB Group's obligations for jubilee long-service benefits.

e) Movements in restructuring provisions

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Balance as at 1 January	15,284	10,014	14,687	8,750
Effects of translation of foreign operations to presentation currency	1	5	-	-
Additional provisions (note 4.12.)	3	8,588	-	8,400
Provisions released (note 4.12.)	(24)	-	-	-
Utilised during year	(2,901)	(3,323)	(2,745)	(2,463)
Balance as at 31 December	**12,363**	**15,284**	**11,942**	**14,687**

NLB Group has adopted a business strategy and initiated key strategic initiatives, aiming among others towards a leaner organisation, optimisation of processes, implementation of a new IT strategy with a focus on digitalisation and simplification, and adjustment of the organisational structure. These initiatives will result in a decreased number of employees in the coming years. Built provisions are expected to be used for redundancy payments in the next three years.

f) Movements in provisions for legal risks

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Balance as at 1 January	15,786	15,194	4,958	3,282
Effects of translation of foreign operations to presentation currency	8	175	-	-
Additional provisions (note 4.12.)	4,529	4,940	293	1,831
Provisions released (note 4.12.)	(2,996)	(4,258)	(2,551)	-
Utilised during year	(4,250)	(245)	(520)	(155)
Exchange differences	(1)	(20)	-	-
Balance as at 31 December	**13,076**	**15,786**	**2,180**	**4,958**

g) Movements in other provisions

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Balance as at 1 January	214	2,267	203	2,265
Additional provisions (note 4.12.)	-	32	-	-
Provisions released (note 4.12.)	-	(591)	-	(591)
Utilised during year	(5)	(1,494)	(5)	(1,471)
Balance as at 31 December	**209**	**214**	**198**	**203**

5.20. Deferred income tax

a) Analysis by type of deferred income taxes

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Deferred income tax assets				
Valuation of financial instruments and capital investments	25,834	25,513	25,747	25,475
Impairment provisions	905	170	697	2
Employee benefit provisions	3,671	4,018	2,915	3,432
Depreciation and valuation of non-financial assets	1,627	976	157	162
Total deferred income tax assets	**32,037**	**30,677**	**29,516**	**29,071**
Deferred income tax liabilities				
Valuation of financial instruments	7,205	10,077	6,606	9,067
Depreciation and valuation of non-financial assets	1,179	1,097	232	246
Impairment provisions	3,305	1,996	444	-
Total deferred income tax liabilities	**11,689**	**13,170**	**7,282**	**9,313**
Net deferred income tax assets	**22,847**	**18,603**	**22,234**	**19,758**
Net deferred income tax liabilities	**(2,499)**	**(1,096)**	**-**	**-**

	NLB Group		NLB	
	2018	2017	2018	2017
Included in the income statement for the current year	**920**	**8,691**	**(160)**	**7,164**
- valuation of financial instruments and capital investments	248	6,710	147	6,565
- impairment provisions	282	1,214	33	-
- employee benefit provisions	(180)	724	(349)	606
- depreciation and valuation of non-financial assets	570	37	9	(7)
- other	-	6	-	-
Included in other comprehensive income for the current year	**2,226**	**1,747**	**2,076**	**1,972**
- valuation and impairment provisions of financial assets measured at fair value through other comprehensive income	2,394	-	2,244	-
- valuation of available-for-sale financial assets	-	1,657	-	1,882
- actuarial assumptions and experience	(168)	90	(168)	90

As at 31 December 2018, NLB recognised EUR 29,516 thousand in deferred tax assets (31 December 2017: EUR 29,071 thousand). Unrecognised deferred tax assets amount to EUR 262,081 thousand (31 December 2017: EUR 277,325 thousand), of which EUR 189,491 thousand (31 December 2017: EUR 204,657 thousand) relates to unrecognised deferred tax assets from tax loss, and EUR 72,590 thousand (31 December 2017: EUR 72,668 thousand) to unrecognised deferred tax assets from impairments of non-strategic capital investments.

b) Movements in deferred income taxes

Deferred income tax assets

in EUR thousands

NLB Group	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Total
Balance as at 1 January 2017	3,208	19,301	1,113	387	24,009
Effects of translation of foreign operations to presentation currency	-	-	7	6	13
Transfer to non-current assets and disposal group held for sale	(4)	-	-	-	(4)
(Charged)/credited to profit and loss	724	6,607	(144)	(223)	6,964
(Charged)/credited to other comprehensive income	90	(395)	-	-	(305)
Balance as at 31 December 2017	**4,018**	**25,513**	**976**	**170**	**30,677**
Transition to IFRS 9	-	(246)	-	720	474
Effects of translation of foreign operations to presentation currency	1	-	-	1	2
(Charged)/credited to profit and loss	(180)	38	651	14	523
(Charged)/credited to other comprehensive income	(168)	529	-	-	361
Balance as at 31 December 2018	**3,671**	**25,834**	**1,627**	**905**	**32,037**

in EUR thousands

NLB	Employee benefit provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Impairment provisions	Total
Balance as at 1 January 2017	2,736	19,424	175	2	22,337
(Charged)/credited to profit and loss	606	6,462	(13)	-	7,055
(Charged)/credited to other comprehensive income	90	(411)	-	-	(321)
Balance as at 31 December 2017	**3,432**	**25,475**	**162**	**2**	**29,071**
Transition to IFRS 9	-	(246)	-	662	416
(Charged)/credited to profit and loss	(349)	38	(5)	33	(283)
(Charged)/credited to other comprehensive income	(168)	480	-	-	312
Balance as at 31 December 2018	**2,915**	**25,747**	**157**	**697**	**29,516**

Deferred income tax liabilities

in EUR thousands

NLB Group	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Other	Total
Balance as at 1 January 2017	3,471	12,233	1,278	19	17,001
Effects of translation of foreign operations to presentation currency	1	7	-	-	8
Transfer to non-current assets and disposal group held for sale	-	(8)	-	(13)	(21)
Disposal of subsidiary	(39)	-	-	-	(39)
Charged/(credited) to profit and loss	(1,437)	(103)	(181)	(6)	(1,727)
Charged/(credited) to other comprehensive income	-	(2,052)	-	-	(2,052)
Balance as at 31 December 2017	**1,996**	**10,077**	**1,097**	**-**	**13,170**
Transition to IFRS 9	1,547	(754)	-	-	793
Effects of translation of foreign operations to presentation currency	(11)	(2)	1	-	(12)
Charged/(credited) to profit and loss	(268)	(210)	81	-	(397)
Charged/(credited)to other comprehensive income	41	(1,906)	-	-	(1,865)
Balance as at 31 December 2018	**3,305**	**7,205**	**1,179**	**-**	**11,689**

in EUR thousands

NLB	Impairment provisions	Valuation of financial instruments and capital investments	Depreciation and valuation of non-financial assets	Total
Balance as at 1 January 2017	-	11,463	252	11,715
Charged/(credited) to profit and loss	-	(103)	(6)	(109)
Charged/(credited) to other comprehensive income	-	(2,293)	-	(2,293)
Balance as at 31 December 2017	**-**	**9,067**	**246**	**9,313**
Transition to IFRS 9	416	(560)	-	(144)
Charged/(credited) to profit and loss	-	(109)	(14)	(123)
Charged/(credited) to other comprehensive income	28	(1,792)	-	(1,764)
Balance as at 31 December 2018	**444**	**6,606**	**232**	**7,282**

5.21. Income tax relating to components of other comprehensive income

in EUR thousands

	NLB Group			NLB		
2018	**Before tax**	**Tax expense**	**Net of tax**	**Before tax**	**Tax expense**	**Net of tax**
Actuarial gains and lossess	1,166	(168)	998	884	(168)	716
Financial assets measured at fair value through other comprehensive income	(11,328)	2,394	(8,934)	(11,321)	2,244	(9,077)
Share of associates and joint ventures	(6,495)	1,222	(5,273)	-	-	-
Total	**(16,657)**	**3,448**	**(13,209)**	**(10,437)**	**2,076**	**(8,361)**

in EUR thousands

	NLB Group			NLB		
2017	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Actuarial gains and lossess	(810)	90	(720)	(950)	90	(860)
Available-for-sale financial assets	(7,261)	1,657	(5,604)	(9,904)	1,882	(8,022)
Share of associates and joint ventures	225	(36)	189	-	-	-
Total	**(7,846)**	**1,711**	**(6,135)**	**(10,854)**	**1,972**	**(8,882)**

5.22. Other liabilities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Taxes payable	4,210	3,409	3,185	2,770
Deferred income	8,269	3,101	5,698	1,034
Payments received in advance	2,361	3,086	660	377
Total	**14,840**	**9,596**	**9,543**	**4,181**

5.23. Share capital

The share capital of NLB amounts to EUR 200,000 thousand and did not change during 2018. It comprises of 20,000,000 no-par-value ordinary registered shares, with the corresponding value of EUR 10.0 for one share. All issued shares are fully paid and there are no un-issued authorised shares. As at 31 December 2018, the major shareholder of NLB with significant influence is the Republic of Slovenia, owning 35.00%. As at 31 December 2017, the Republic of Slovenia was the only shareholder of NLB. NLB Group does not own treasury shares.

The book value of a NLB share on a consolidated level as at 31 December 2018 was EUR 80.8 (31 December 2017: EUR 82.7), and on solo level was EUR 64.8 (31 December 2017: EUR 69.1). It is calculated as the ratio of net assets' book value without other equity instruments issued and the number of shares.

Distributable profit as at 31 December 2018 amounts to EUR 194,491 thousand (31 December 2017: EUR 270,627 thousand), and consists of NLB net profit for 2018 in the amount of EUR 165,299 thousand (2017: EUR 189,094 thousand), impact of adopting IFRS 9 in the amount of EUR 29,121 thousand, the transfer of fair value reserve in the amount of EUR 44 thousand on derecognition of equity financial instruments measured at fair value through OCI and retained earnings from previous years in the amount of EUR 27 thousand. Its allocation will be subject to a decision by the Bank's General Assembly. Proposal for General Assembly will be prepared by the Management and the Supervisory Board, considering Group's risk appetite, target capital adequacy at Group level and actual prevailing capital position at the time of the proposal.

In April 2018, ECB decided to require NLB to obtain the approval of the ECB prior to making any distributions to its shareholders due to the evaluation of the ECB that NLB was exposed to potential losses from pending lawsuits in Croatia. In August 2018 the Act for value protection of Republic Slovenia's Capital investment in Nova Ljubljanska banka d.d., Ljubljana came into force (note 5.19) and after NLB provided additional argumentation and documentation, ECB released NLB from restrictions for dividend payments (for retained earnings and for future dividend payments). Therefore in October 2018 NLB paid dividends for previous year in the amount of EUR 13.53 per share (2017: 3.189 EUR), which decreased retained earnings for EUR 270,600 thousand (2017: EUR 63,780 thousand).

5.24. Accumulated other comprehensive income and reserves

a) Reserves

The share premium account as at 31 December 2018 and 31 December 2017 comprises paid-up premiums in the amount of EUR 822,173 thousand and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand.

As at 31 December 2018 and 31 December 2017 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2018, NLB recorded a net profit in the amount of EUR 165,299 thousand which is included in the retained earnings as at 31 December 2018.

b) Accumulated other comprehensive income

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Financial assets measured at fair value through other comprehensive income - debt securities	27,166	-	18,504	-
Financial assets measured at fair value through other comprehensive income - equity securities	1,536	-	116	-
Available-for-sale financial assets - debt securities (IAS 39)	-	43,860	-	28,346
Available-for-sale financial assets - equity securities (IAS 39)	-	3,735	-	850
Actuarial defined benefit pension plans	(3,358)	(4,349)	(2,781)	(3,497)
Foreign currency translation	(18,275)	(17,248)	-	-
Hedge of a net investment in a foreign operation	754	754	-	-
Total	**7,823**	**26,752**	**15,839**	**25,699**

5.25. Capital adequacy ratios

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Paid up capital instruments	200,000	200,000	200,000	200,000
Share premium	871,378	871,378	871,378	871,378
Retained earnings	293,026	296,773	29,192	81,533
Profit eligible - from current year	108,829	29,280	103,335	-
Accumulated other comprehensive income	3,598	(11,450)	15,839	(20)
Other reserves	13,522	13,522	13,522	13,522
Prudential filters: Value adjustments due to the requirements for prudent valuation	(1,983)	(2,389)	(1,607)	(1,886)
(-) Goodwill	(3,529)	(3,529)	-	-
(-) Other intangible assets	(31,439)	(31,445)	(23,391)	(23,911)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**1,453,402**	**1,362,140**	**1,208,268**	**1,140,616**
Additional Tier 1 capital	-	-	-	-
TIER 1 CAPITAL	**1,453,402**	**1,362,140**	**1,208,268**	**1,140,616**
Tier 2 capital	-	-	-	-
Total CAPITAL (OWN FUNDS)	**1,453,402**	**1,362,140**	**1,208,268**	**1,140,616**
RWA for credit risk	7,179,678	7,096,413	4,150,987	4,369,557
RWA for market risks	541,901	499,726	273,476	269,988
RWA for credit valuation adjustment risk	2,563	850	2,563	850
RWA for operational risk	953,482	949,493	596,586	593,750
Total RISK EXPOSURE AMOUNT (RWA)	**8,677,624**	**8,546,482**	**5,023,612**	**5,234,145**
Common Equity Tier 1 Ratio	16.7%	15.9%	24.1%	21.8%
Tier 1 Ratio	16.7%	15.9%	24.1%	21.8%
Total Capital Ratio	16.7%	15.9%	24.1%	21.8%
Total Capital Ratio	15.9%	17.0%	21.8%	23.4%

European bank capital legislation, comprising the CRR regulation and CRD IV directive, is based on the Basel III guidelines. Legislation defines three capital ratios reflecting a different quality of capital:

- Common Equity Tier 1 ratio (ratio between common or CET 1 capital

and weighted risk exposure amount or RWA), which must be at least 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must be at least 6%; and
- Total capital ratio (total capital to RWA), which must be at least 8%.

In addition to the aforementioned ratios, which form the Pillar 1 requirement, the Bank must meet other requirements and recommendations that are being imposed by the supervisory institutions or by the legislation:

- Pillar 2 Requirement (SREP requirement): bank specific, obligatory requirement set by the supervisory institution through the SREP process (together with the Pillar 1 requirement it represents the minimum total SREP requirement – TSCR);
- Applicable combined buffer requirement (CBR): system of capital buffers to be added on top of TSCR – breaching of the CBR is not a breach of capital requirement, but triggers limitations in the payment of dividends and other distributions from capital. Some of the buffers are prescribed by law for all banks and some of them are bank specific, set by the supervisory institution (CBR and TSCR together form the overall capital requirement – OCR);
- Pillar 2 Guidance: capital recommendation over and above the OCR, set by the supervisory institution through the SREP process. It is bank-specific, and as a recommendation not obligatory. Any non-compliance does not affect dividends or other distributions from capital, however, it might lead to intensified supervision and imposition of measures to re-establish a prudent level of capital.

NLB's overall capital requirement on the consolidated level

SREP requirement		2018	2017
Pillar 1 (P1)	CET1	4.5%	4.5%
	AT1	1.5%	1.5%
	T2	2.0%	2.0%
Pillar 2 (P2R)	CET1	3.5%	3.5%
Total SREP Capital Requirement (TSCR)	CET1	8.0%	8.0%
	AT1	9.5%	9.5%
	T2	11.5%	11.5%
Combined Buffer requirement (CBR)			
Conservation buffer	CET1	1.875%	1.25%
O-SII buffer	CET1	0%	0%
Countercyclical buffer	CET1	0%	0%
Overall capital requirement (OCR) = MDA threshold	CET1	9.875%	9.25%
	AT1	11.375%	10.75%
	T2	13.375%	12.75%
Pillar 2 Guidance (P2G)	CET1	1.5%	2.25%
OCR + P2G	CET1	11.375%	11.50%

As of 1 January 2018, NLB was required to maintain the OCR on the level of 13.375% on consolidated basis, consisting of 11.5% TSCR and 1.875% CBR, and meet the following capital requirements on a consolidated basis:

- 9.875% CET 1 ratio,
- 11.375% Tier 1 ratio,
- 13.375% Total Capital ratio.

The above capital ratios are inclusive of 3.5% Pillar 2 Requirement (P2R) and 1.875% Capital Conservation Buffer (CCB).

From 1 March 2019, NLB is required to maintain the OCR on the level of 14.75% on a consolidated basis, consisting of 11.25% TSCR and 3.5% CBR. The increase of the requirement in comparison to the 2018 level is mainly due to the phasing-in of the capital conservation buffer and the implementation of the O-SII buffer. As prescribed by CRD IV and the Banking Act (ZBan-2), CCB was linearly increasing and has reached the fully loaded level of 2.5% in 2019, whereas the Bank of Slovenia requires NLB to apply the O-SII buffer at the rate of 1% on the consolidated level from 2019 on. On the other hand, Pillar 2 Requirement (P2R) decreased by 0.25 p.p. to 3.25%, as a result of better overall SREP assessment. The bank intends to further strengthen and also optimize

NLB Group capital structure by issuing a Tier 2 instrument in 2019.

As of 31 December 2018, NLB Group capital ratios on a consolidated basis stand at:

- 16.7% CET 1 ratio,
- 16.7% Tier 1 ratio,
- 16.7% Total Capital ratio.

The capital adequacy of the NLB Group and NLB at the end of year 2018 remains strong in accordance with risk appetite orientations, at a level which covers all current and announced regulatory capital requirements, including capital buffers and other currently known requirements, and the Pillar 2 Guidance.

In 2018, the capital of the Bank and the Group consists merely of the components of top quality CET 1 capital (no subordinated instruments that would rank in lower capital categories), which is why all three capital ratios are the same. 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 European Banking Authority (EBA).

In the scope of regulatory risks, which include credit risk, operational risk, and market risk, NLB Group uses the standardised approach for credit and market risks, while the calculation of capital requirement for operational risks is made according to the basic indicator approach. The same approaches are used for calculating the capital requirements for NLB on a standalone basis, except for the calculation of the capital requirement for operational risks where the standardised approach is used.

At the end of 2018, the capital ratios for NLB Group stood at 16.7% (or 0.8 percentage points higher than at the end of 2017), and for NLB 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 the first six months 2018 result (EUR 108.8 million for NLB Group), lower retained earnings (EUR - 81.5 million) as part of dividend pay-out, the inclusion of the positive effect from the implementation of IFRS 9 (EUR 43.8 million for NLB Group and EUR 27.7 million for NLB), and the conclusion of transitional arrangements relevant until the end of 2017.

The RWA for credit risk increased by EUR 83.3 million, mainly due to loan growth on the retail segment (EUR 244.2 million) and on the corporate segment (EUR 158.7 million) as a consequence of increased business. The increase in RWA for market risks and CVA (Credit value adjustments) (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.

In 2018 the internal capital adequacy assessment (ICAAP) process was substantially upgraded in accordance with newly published ECB Guidelines, including its stronger integration into the overall risk management system in order to assure proactive support for informed decision-making. The most important goal of ICAAP process in NLB Group is ensuring adequate capital and sustainability on ongoing basis. The purpose of this process is to have in place sound, effective, and comprehensive strategies and processes to assess and maintain capital on an ongoing basis, as well the adequate distribution of internal capital that for covering the nature and level of the risks to which NLB Group is or might be exposed.

Under economic perspective Group manages its capital adequacy by ensuring that all its risks are adequately covered by internal capital. A normative perspective is a multiyear forward looking assessment of NLB Group which shows its ability to fulfill all of its capital-related regulatory and supervisory requirements and risk appetite of NLB Group. Within these capital constraints, the NLB Group defines its management buffers in the Risk appetite above the regulatory and supervisory requirement and internal capital needs that allow it to sustainably follow its business strategy. A normative perspective includes several stress scenarios which are integrated into Group's annual business plan review and budgeting process.

5.26. Off-balance sheet liabilities

a) Contractual amounts of off-balance sheet financial instruments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Short-term guarantees	204,513	187,917	122,273	109,698
- financial	116,547	105,233	66,184	50,791
- non-financial	87,966	82,684	56,089	58,907
Long-term guarantees	604,793	551,725	451,053	406,408
- financial	241,231	207,380	161,606	125,646
- non-financial	363,562	344,345	289,447	280,762
Commitments to extend credit	1,207,642	1,130,250	945,856	898,927
Letters of credit	18,155	14,614	5,302	375
Other	10,415	6,007	5,200	1,967
	2,045,518	**1,890,513**	**1,529,684**	**1,417,375**
Provisions (note 5.19.b), c)	(39,082)	(36,915)	(29,516)	(34,257)
Total	**2,006,436**	**1,853,598**	**1,500,168**	**1,383,118**

Fee income from all issued non-financial guarantees amounted to EUR 5,096 thousand (2017: EUR 5,240 thousand) in NLB Group, and to EUR 4,267 thousand (2017: EUR 4,617 thousand) in NLB.

b) Analysis of derivative financial instruments by notional amounts

in EUR thousands

	NLB Group				NLB			
	31 Dec 2018		31 Dec 2017		31 Dec 2018		31 Dec 2017	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Swaps	42,121	1,790,411	158,109	1,696,447	35,723	1,790,411	141,137	1,696,447
- currency swaps	42,121	65,834	158,109	-	35,723	65,834	141,137	-
- interest rate swaps	-	1,724,577	-	1,696,447	-	1,724,577	-	1,696,447
Options	11,954	30,750	11,262	26,125	11,954	30,750	11,262	26,125
- interest rate options	-	30,750	-	26,125	-	30,750	-	26,125
- securities options	11,954	-	11,262	-	11,954	-	11,262	-
Forward contracts	65,979	8,953	67,918	29,927	65,590	8,953	67,329	29,927
- currency forward	65,979	8,953	67,918	29,927	65,590	8,953	67,329	29,927
Total	**120,054**	**1,830,114**	**237,289**	**1,752,499**	**113,267**	**1,830,114**	**219,728**	**1,752,499**
	1,950,168		**1,989,788**		**1,943,381**		**1,972,227**	

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB Group and NLB amount to EUR 493,677 thousand (31 December 2017: EUR 406,218 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.7., and 5.3.b).

c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Real estate				
Not later than one year	3,753	3,591	604	801
Later than one year and not later than five years	11,582	12,037	1,424	2,982
Later than five years	1,883	3,049	120	1,399
Other				
Not later than one year	1,935	1,534	489	342
Later than one year and not later than five years	5,270	3,842	1,074	531
Later than five years	425	395	-	-
Total	**24,848**	**24,448**	**3,711**	**6,055**

d) Capital commitments

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Capital commitments for purchase of:				
- property and equipment	2,476	129	2,476	129
- intangible assets	1,839	3,023	1,787	2,855
Total	**4,315**	**3,152**	**4,263**	**2,984**

5.27. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on NLB Group in connection with these transactions. NLB Group charges fees for its services.

Funds managed on behalf of third parties

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Fiduciary activities	24,879,612	24,638,065	24,062,542	23,532,746
Settlement and other services	1,251,416	1,684,218	1,220,641	1,647,375
Total	**26,131,028**	**26,322,283**	**25,283,183**	**25,180,121**

Fiduciary activities

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Assets				
Clearing or transaction account claims for client assets	**24,815,258**	**24,596,576**	**24,003,252**	**23,498,114**
- from financial instruments	24,808,718	24,591,369	23,997,062	23,493,388
- receipt, processing, and execution of orders	8,945,528	9,802,973	8,643,063	9,200,568
- management of financial instruments portfolio	437,066	422,222	-	-
- custody services	15,426,124	14,366,174	15,353,999	14,292,820
- to Central Securities Clearing Corporation or bank settlement account for sold financial instrument	608	685	258	204
- to other settlement systems and institutions for bought financial instrument (debtors)	5,932	4,522	5,932	4,522
Clients' money	**64,354**	**41,489**	**59,290**	**34,632**
- at settlement account for client assets	13,788	12,789	8,724	5,932
- at bank transaction accounts	50,566	28,700	50,566	28,700
Liabilities				
Clearing or transaction liabilities for client assets	**24,879,612**	**24,638,065**	**24,062,542**	**23,532,746**
- to client from cash and financial instruments	24,876,258	24,634,743	24,059,499	23,530,705
- receipt, processing, and execution of orders	8,965,387	9,807,819	8,662,922	9,205,414
- management of financial instruments portfolio	442,169	428,279	-	-
- custody services	15,468,702	14,398,645	15,396,577	14,325,291
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	344	225	344	225
- to other settlement systems and institutions for bought financial instrument (creditors)	2,615	2,670	2,304	1,389
- to bank or settlement bank account for fees and costs, etc.	395	427	395	427

Fee income for funds managed on behalf of third parties

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Fiduciary activities (note 4.3.b)	9,273	8,386	7,951	6,917
Settlement and other services	1,570	1,296	1,166	943
Total	**10,843**	**9,682**	**9,117**	**7,860**

6. Risk management

Risk management in NLB Group is implemented in accordance with the established internal policies and procedures which take into account European banking regulations, the regulations adopted by the Bank of Slovenia, the current EBA guidelines, and relevant good banking practices. In addition, the Group is constantly enhancing and complementing the existing approaches, methodologies, and processes in all risk management segments.

Managing risks and capital efficiently is crucial for NLB Group sustained long-term profitable operations. Robust Risk Management framework is comprehensively integrated into decision-making, steering, and mitigation processes within the Group. NLB Group gives high importance to the risk culture and awareness of all relevant risks within the entire Group.

NLB Group's Risk management framework supports business decision-making on strategic and operating levels, comprehensive steering, and proactive risk management by incorporating:

- risk appetite statement and risk strategy orientations,
- yearly review of strategic business goals, budgeting, and capital planning process,
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP),
- recovery plan activities,
- other internal stress-testing capabilities and on-going risk analysis,
- regulatory and internal management reporting.

Set governance and different risk management tools enable adequate oversight of the Group's risk profile. Moreover, they support business operations and enable efficient risk management by incorporating escalation procedures and different mitigation measures when necessary.

a) Risk management strategies and processes

The key goal of NLB Group's Risk Management is to proactively manage, assess, and monitor risks within the Group. Sound and holistic understanding of risk management is embedded into the entire organisation, focusing on risk identification in a very early stage, efficient risk management, and mitigation of them with aim to ensure the prudent use of its capital, adequate liquidity structure and related buffers to support financial resilience of the Group.

Key risk management guidelines of NLB Group are defined by its Risk Appetite and Risk Strategy with regard to the Group's business model, based on a forward-looking perspective. They are regularly revised and enhanced. The Strategy of NLB Group, the Risk Appetite, and Risk Strategy guidelines and the key internal policies of NLB Group – which are approved by the Management Board and by the Supervisory Board – specify the strategic goals, risk appetite guidelines, approaches, and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal objectives and all external requirements. In addition, main strategic risk guidelines are integrated into the annual business plan review and budgeting process.

NLB Group plans a prudent risk profile, optimal capital usage, and profitable operations for the long run, considering the risks assumed. The management of credit risk, which is the most important risk category in NLB Group, concentrates on taking moderate risks – a diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards constantly ensuring an appropriate level of liquidity, both in the short and long terms. The Group's fundamental orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital, therefore, a moderate tolerance for this risk is stated. Concerning market and operational risks, NLB Group follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low, and focuses on minimising their possible impacts on NLB Group's entire operations.

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 assure Group's risk profile is in line with its risk appetite. The usage of risk limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board of the Bank. The banking subsidiaries within NLB Group have adapted a corresponding approach to monitor their target risk profiles. Additionally, the Group has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient risk mitigation process, NLB Group applies a single set of standards to retail and corporate loan collateral, which represents a secondary source of repayment with the aim of efficient credit risk management and consuming capital economically. The Group has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The eligibility of collateral, by types and ratios referring to prudent lending criteria, is set within internal lending guidelines. Credit risk mitigation principles and rules in

NLB Group are described in more relevant details in the Section Credit risk management. When hedging market risks, namely interest rate risk and foreign exchange risk, in line with the set risk appetite, NLB Group follows the principle of natural hedge or using derivatives in line with hedge accounting principles.

NLB Group established comprehensive stress testing framework and other early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary. Robust and uniform stress testing programme includes all material types of risk and relevant stress scenario analysis, according to the vulnerability of the Group's business model. It is integrated into Risk appetite, ICAAP, ILAAP, and the Recovery plan to support proactive management of the Group's risk profile, namely capital and liquidity position on a forward-looking perspective. In addition, the Group also performs reverse stress tests with the aim to test its maximum recovery capacity. Other partial risk assessments are covered by the sensitivity analysis, based on relevant stressed risk parameters, and integrated into the process of setting a risk management limit system.

b) Risk management structure and organisation

NLB Group established three lines of a defence framework with the aim to manage risks effectively. The three lines of defence concept provides a clear division of activities and defines roles and responsibilities for risk management at different levels within the Group. Risk management in the Group acts as a second line of defence, accountable for appropriate managing, assessing, monitoring, and reporting of risks in the Bank as the main entity in Slovenia, and as the competence centre in charge for six banking members and other non-core subsidiaries which are in the controlled wind-out.

Overall, the organisation and delineation of competencies in the NLB Group's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in the NLB Group is centralised within the Risk management business-line, which is a specialised business-line encompassing several professional areas, for which the Global Risk Department, the Corporate and the Retail Credit Analysis Department, and the Evaluation and Control Department are responsible within NLB, and which reports to the Assets and Liabilities Committee (ALCO) of the Management Board and the Risk Committee of the Supervisory Board. The Risk management business line is in charge of formulating and controlling the risk management policies of the NLB Group, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within the NLB Group, monitoring the NLB Group's risk exposures, and preparing external and internal reports.

All members of the NLB Group, which are included in the financial statements of the NLB Group, report their exposure to risks to the competent organisational units within the Risk management business line. These organisational units then report all relevant risk information to the Assets and Liabilities Committee ('ALCO') of the Management Board and the Risk Committee of the Supervisory Board, which is where the Management Board and the Supervisory Board, adopt appropriate measures.

Credit ratings of clients that are materially important to the NLB Group and the issuing of credit risk opinions are centralised via the Credit Committee of NLB. The process follows the co-decision principle, in which the credit committee of the respective group member first approves their decision, following which the Credit Committee of NLB gives their opinion. The resolution of the Credit Committee of NLB is made on the basis of all available documentation, including a non-binding rating opinion prepared by the underwriting department of NLB. This same principle and process is set also for the issuing of credit exposures for the materially important clients of the NLB Group.

Risk monitoring in the NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Group's and of each member's statement of financial position. In compliance with the risk management policies of the NLB Group, risk monitoring in each NLB Group member is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board and its committees (Credit Committee, ALCO and Operational Risk Committee), which report to the Supervisory Board (Risk Committee of the Supervisory Board or Board of Directors).

c) Risk measurement and reporting systems

As a systemic banking group, NLB Group is subject to the Single Supervisory Mechanism (SSM), which is supervised by the Joint Supervisory Team of the ECB and the Bank of Slovenia. Each NLB Group member complies with the ECB regulation, while the NLB Group subsidiaries operating outside Slovenia are also compliant with the rules set by the local regulators.

The NLB Group's measurement systems and the risk management principles are crucial elements of the risk management policies which, for the purpose of consolidated control, are aligned with all regulatory requirements of the Bank of Slovenia and the European Central Bank, taking into account the provisions of the Directive (CRD), Decision (CRR), and

EBA guidelines. With regard to capital adequacy, the NLB Group applies the standardised approach to credit and market risk and the basic approach (a simplified approach with less data granularity) to operational risks, with the exception of NLB which applies the standardised approach.

NLB Group performs a uniform assessment and management of risks across the entire Group, taking into account the specifics of the markets in which individual Group members are operating in line with the Group's Risk management standards. For the purposes of measuring exposure to credit, market, interest, operational, and non-financial risks, in addition to prescribed regulations, NLB Group uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as best practices in banking methodologies.

As for risk reporting, the NLB Group's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the Bank of Slovenia and the ECB. In addition, each member of the NLB Group also complies with the requirements of its local regulations. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, appropriate databases and the automation of report preparation, which ensures the quality of reports and reduces the possibility of errors.

d) Data and IT system

Most of the risk data are calculated and stored in NLB Data Warehouse (DWH). The data are collected from transactional source systems, group member's DWH and other source systems (e.g. general ledger). The established process provides an integrated information in common reference structure where business users can access in a consistent and subject-oriented format. Data are regularly checked and validated. Data used for internal risk assessment, management, and reporting are the same as data which NLB Group uses for regulatory reporting.

e) Main emphasis of risk management in 2018

NLB Group further enhanced the robustness of its risk management system in all respective risk categories in order to manage them proactively, comprehensively, and prudently. Risk identification in a very early stage, its efficient managing, and the corresponding mitigation processes represent essential steps in such a system. The business and operating environment relevant for NLB Group operations is changing with trends such as changing customer behaviour, emerging new technologies and competitors, and increasing new regulatory requirements. Considering that risk management is continuously adapting with the aim to detect and manage new potential emerging risks.

Special focus is put on the inclusion of risk analysis into the decision-making process on strategic and operating levels, diversification in order to avoid a 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. In 2018, the ICAAP process was substantially upgraded in accordance with newly published ECB Guidelines, including its stronger integration into an overall risk management system in order to assure proactive support for informed decision making.

The Group participated in the 2018 ECB Stress test exercise, whose qualitative outcomes were included in the determination of Pillar 2 requirement (P2R), namely as an element of risk governance, and setting Pillar 2 Guidance (P2G). The final results of the bottom-up stress test for the period of 2018-2020 showed that even in a very unfavourable market conditions defined by the EBA and ECB, NLB Group holds sufficient resilience in terms of capitalisation. NLB Group was able to conclude the stress test exercise in the second cycle of a total of three, as an early termination, by providing sufficient quality assurance.

In April 2018, the Group received the Bank of Slovenia Decree on the determination of the MREL requirement. MREL is determined in the percent of Total Liabilities and Own Funds (TLOF) on the sub-consolidated level of the NLB Resolution Group and must be attained by the end of March 2019. The MREL requirement for the Group is based on the Multiple Point of Entry (MPE) approach, and was determined to be 17.40% of TLOF. The Group defined fulfillment of MREL requirement as a part of its risk appetite.

The most important risk in NLB Group, in line with strategic orientations, remains the credit risk category. NLB Group gives great emphasis to the credit portfolio quality, where the quality of new financing of corporate and retail clients, and a well-diversified portfolio structure represent the key goals. 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 portfolio quality in 2018 was very stable with increasing Stage 1 exposures, representing a major part of credit portfolio, and a reduction of NPL loans, which are below the Slovenian average. The majority of increase in Stage 2 occurred due to NPL upgrades. The Group managed to further reduce the volume of non-performing exposures, approaching the average EU banking level. In addition, coverage ratio remains high, enabling further NPE reduction without significant influence on cost of risk in the years ahead. An economic upswing and other one-off occurrences resulted in a negative cost of risk on the Group level, whose evolution was otherwise very stable and in accordance with the strategic mid-term financial targets.

In the still negative interest rate environment, the Group faced growing excess liquidity, whereby significant attention was put to the structure and concentration of the liquidity reserves by incorporating early warning systems, having in mind potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products resulted in moderately increased interest rate risk exposure, which stayed within relatively low to moderate tolerance toward this risk. Moreover, during 2018 the Group's capital and liquidity position remained strong at both, the Group and subsidiary bank levels, standing well above the targeted risk appetite profile.

There was also a large emphasis on the management of operational risks, where NLB Group follows the guideline that such risk may not considerably influence its operations. 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 the scenario analysis referring to high severity, low frequency events, and on modelling data on loss events. Furthermore, key risk indicators, servicing as an early warning system for the broader field of operational risks, were additionally enhanced, with the aim of improving existing internal controls and timely responding when necessary.

6.1. Credit risk management

a) Introduction

In its operations, NLB Group is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to NLB Group. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, NLB Group follows the International Financial Reporting Standards, regulations issued by the Bank of Slovenia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

Through regular reviews of the business practices and the credit portfolios of NLB entities, NLB ensures that the credit risk management of those entities functions in accordance with NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

NLB Group manages credit risk at two levels:

- At the level of the individual customer/group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with NLB are assessed. It is also important to secure high-quality collateral even though it does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards this detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models for particular client segments have been developed.

- The quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed at the level of the overall portfolio of NLB Group and NLB. Comprehensive analyses are regularly performed in terms of client segmentation (depending on the client type and size), credit rating structure, arrears, and/or volume of non-performing/Stage 2 receivables, coverage with ECL allowances, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure, and other indicators of risks in the credit portfolio. A lot of attention is put on regular monitoring of new deals and other changes or trends, with the emphasis on the early detection of increased risks and their optimisation in relation to profitability. NLB Group appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments, or other specific events). Increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy. Capital requirements for credit risk at NLB Group level within the first pillar are calculated according to the standardised approach, while within the second pillar an internal IRB approach is used to estimate the RWA for default risk, while credit concentration add-on is estimated based on the HHI concentration indexes.

NLB and other NLB Group members assess the level of credit risk losses on an individual basis for material claims, and at the collective level for the rest of the portfolio.

Individual review is performed for material Stage 3 financial assets, which have been rated as non-performing based on the information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised.

Collective ECL allowances are made for the remainder of the portfolio, which is not assessed on an individual basis. Based on IFRS9 requirements, financial assets valued at amortized cost are attributed to the appropriate stage based on the estimated increase of credit risk of a single exposure since initial recognition. The stage of financial assets determines whether a 12-month or lifetime ECL has to be considered. The ECL calculation is based on the forward-looking probability of default (PD) and loss given default (LGD), which are calculated using historic data and statistical modelling, as well as predicted macroeconomic parameters. For the off-balance financial assets, the probability of the redemption of guarantees is taken into account when creating collective provisions. The models used to estimate future risk parameters are validated and back-tested on a regular basis in order to make loss estimations as realistic as possible.

b) Main emphasis in 2018

In the process of constantly complementing and enhancing credit risk management NLB Group focuses on taking moderate risks, and at the same time ensuring an optimal return considering the risks assumed. The Group puts considerable emphasis on new corporate and retail financing in terms of the sustainability of its portfolio structure, and herewith the related cost of risk, and the sustainable size of the subsidiary banks. 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.

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. The Group is actively present on the market, financing existing and new creditworthy clients. The lower indebtedness of companies and new investment projects has had a positive influence on the approval of new loans. In the retail segment, positive trends have been recorded in almost all the region in terms of clients putting greater trust in economic developments, alongside the related recovery in consumption and the real estate market. The efforts, arising from the improved credit standards, resulted in the cumulatively very low, new non-performing loans (NPL) formation. In addition, the favourable macroeconomic environment resulted in the negative cost of risk, whose evolution during the year was otherwise very stable and sustainable in line with strategic orientations.

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. Reduction of NPLs on the Group level remained a key focus in 2018. Precisely set targets and constant monitoring of the realisation supported a further substantial reduction in the volume of the non-performing portfolio. As at 31 December 2018 the share of non-performing exposure by EBA methodology was 4.7% (reduced from 6.7% at the end of 2017). Moreover, the coverage ratio remains high at 62%, which is well above the EU average published by the EBA (45.7% in 3Q 2018).

c) Internal rating system and authorisations (IAS 39)

in EUR thousands

	NLB Group			
	31 Dec 2017			
	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)
A	4,952,528	60.7	24,149	0.5
B	1,972,025	24.2	57,310	2.9
C	393,247	4.8	47,711	12.1
D and E	837,455	10.3	518,158	61.9
Total	**8,155,255**	**100.0**	**647,328**	**7.9**

*Other financial assets are not included.

in EUR thousands

	NLB			
	31 Dec 2017			
	Gross loans and advances	Loans and advances (%)	Impairment provision	Impairment provision (%)
A	3,493,876	64.1	10,889	0.3
B	1,320,299	24.2	28,653	2.2
C	163,861	3.0	16,614	10.1
D and E	470,959	8.6	260,907	55.4
Total	**5,448,995**	**100.0**	**317,063**	**5.8**

*Other financial assets are not included.

The NLB Group's client credit rating classification is based on an internally developed methodology, drawing from internal statistical analyses, good banking practices, as well as Bank of Slovenia regulations, and ECB and EBA guidelines and requirements. The rating methodology is used across the entire NLB Group. The rating methodology includes a uniform credit grade scale of 12 rating classes, out of which nine represent performing clients and three non-performing clients. The Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. The Rating Group A is considered as investment grade classification.

The Rating Group B (BBB to B rating classes) includes clients with a low credit risk, one class higher than 'A' rating group clients. These clients show stable performance, acceptable financial ratios, and qualitative elements, and have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. The Rating Group B classification is an investment grade for BBB, and an 'invest with care' for BB and B.

The Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. Sometimes CCC rated clients are financed by the bank, as support brings more positive effects, however, the Rating Group C is overall considered as a substantial risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure to them.

The Rating Group D (D and DF rating classes) and E represent non-performing clients that are treated as defaulted. D, DF, and E rating classified clients are ordinarily transferred to the specialised units for restructuring (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or workout and legal support (with the goal of minimising losses due to default).

A standard corporate rating methodology, with the prescribed set of parameters (qualitative and quantitative) applies to all the NLB Group bank entities. Groups of connected clients are treated as materially important for the NLB Group whenever exposure exceeds EUR 5 million. Materially important clients are submitted to the NLB Sub-Credit Committee.

NLB regularly reviews the business practices and credit portfolios of NLB Group entities to make sure they are operating in accordance with the minimum risk management standards of NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

d) Maximum exposure to credit risk

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Cash, cash balances at central banks, and other demand deposits at banks	1,588,349	1,256,481	795,102	570,010
Financial assets held for trading	63,609	72,189	63,611	72,180
Non-trading financial assets mandatorily at fair value through profit or loss	25,809	-	26,594	-
Financial assets designated at fair value through profit or loss	-	102	-	-
Financial assets at fair value throuhg other comprehensive income	1,849,018	-	1,483,582	-
Financial assets at amortised cost				
Debt securities	1,428,962	-	1,274,978	-
Loans to government	352,746	-	267,716	-
Loans to banks	118,696	-	110,297	-
Loans to financial organisations	88,676	-	177,744	-
Loans to individuals	3,642,052	-	2,215,667	-
Loans to other customers	3,041,159	-	1,790,350	-
Other financial assets	75,171	-	42,741	-
Loans and advances (IAS 39)				
Debt securities classified as loans and receivables	-	82,133	-	82,133
Loans to government	-	457,080	-	358,675
Loans to banks	-	513,461	-	462,322
Loans to financial organisations	-	77,202	-	268,184
Loans to individuals	-	3,371,946	-	2,082,562
Loans to other customers	-	3,006,105	-	1,878,056
Other financial assets	-	66,257	-	38,389
Available-for-sale financial assets (IAS 39)	-	2,227,099	-	1,730,914
Held-to-maturity financial assets (IAS 39)	-	609,712	-	609,712
Derivatives - hedge accounting	417	1,188	417	1,188
Total net financial assets	**12,274,664**	**11,740,955**	**8,248,799**	**8,154,325**
Guarantees	809,306	741,540	573,326	518,004
Financial guarantees	357,778	312,613	227,790	176,437
Non-financial guarantees	451,528	427,029	345,536	339,669
Loan commitments	1,207,642	1,130,250	945,856	898,927
Other potential liabilities	28,570	20,621	10,502	2,342
Total contingent liabilities	**2,045,518**	**1,892,411**	**1,529,684**	**1,419,273**
Total maximum exposure to credit risk	**14,320,182**	**13,633,366**	**9,778,483**	**9,573,598**

Maximum exposure to credit risk is a presentation of NLB Group's exposure to credit risk separately by individual types of financial assets and conditional obligations. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

e) Collateral from financial assets that are credit-impaired

in EUR thousands

	NLB Group			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2018	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets at amortised cost				
Loans to government	3,463	8,261	860	-
Loans to financial organisations	-	-	18	-
Loans to individuals	29,828	98,207	11,955	9,344
Loans to other customers	93,655	557,261	57,088	119,392
Other financial assets	120	12,894	1,743	128
Total	**127,066**	**676,623**	**71,664**	**128,864**

in EUR thousands

	NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2018	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets at amortised cost				
Loans to government	3,462	8,170	-	-
Loans to financial organisations	-	-	5	-
Loans to individuals	18,442	43,043	6,240	2,560
Loans to other customers	59,646	289,742	38,196	64,966
Other financial assets	66	1,976	847	79
Total	**81,616**	**342,931**	**45,288**	**67,605**

f) Collateral from financial assets at fair value through profit or loss

in EUR thousands

	NLB Group			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2018	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Loans mandatorily at fair value through profit or loss	23,800	39,465	-	-

in EUR thousands

	NLB			
	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
31 Dec 2018	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Loans mandatorily at fair value through profit or loss	21,596	34,756	-	-

g) Collateral from loans and advances (IAS 39)

in EUR thousands

	NLB Group			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31 Dec 2017	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	82,133	82,133	-	-
Loans to government	160,860	226,325	296,220	6,979
Loans to banks	-	-	513,461	-
Loans to financial organisations	27,812	68,696	49,390	366
Loans to individuals	2,024,762	3,748,858	1,347,184	73,767
Loans to other customers	1,773,629	4,142,117	1,232,476	384,075
Other financial assets	421	19,429	65,836	551
Total	**4,069,617**	**8,287,558**	**3,504,567**	**465,738**

in EUR thousands

	NLB			
	Fully/over collateralised loans and advances		Loans and advances not or not fully covered with collateral	
31 Dec 2017	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Debt securities	82,133	82,133	-	-
Loans to government	157,829	171,317	200,846	3,528
Loans to banks	-	-	462,322	-
Loans to financial organisations	27,364	64,781	240,820	205
Loans to individuals	1,572,108	2,614,244	510,454	26,702
Loans to other customers	1,077,102	2,075,580	800,954	285,985
Other financial assets	22	1,996	38,367	487
Total	**2,916,558**	**5,010,051**	**2,253,763**	**316,907**

h) Credit protection policy

NLB Group applies a single set of standards to retail and corporate loan collateral, as developed by the NLB Group members in accordance with regulatory requirements. The master document regulating loan collateral in NLB Group is the Loan Collateral Policy in NLB Group and NLB. The Policy has been adopted by the Management Board of NLB and by the supervisory bodies of respective members for other members of NLB Group. The Policy represents the basic principles that the NLB Group's employees must take into account when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk.

NLB Group primarily accepts collateral complying with the Basel II requirements with the aim of improving credit risk management and consuming capital economically. In accordance with Basel II, collateral may consist of pledged deposits, government guarantees, bank guarantees, debt securities issued by central governments and central banks, bank debt securities, and real-estate mortgages (the real estate must be located in the European Economic Area for the effect on capital to be recognised).

Loans made to companies and sole proprietors may be secured by other forms of collateral, as well (for example, a lien on movable property, a pledge of an equity stake, collateral by pledged/assigned receivables, etc.) if it is assessed that the collateral could generate a cash flow if it were needed as a secondary source of payment. If there is a lower probability that this type of collateral would generate a cash flow, NLB Group takes a conservative approach and accepts the collateral while reporting its value as zero.

i) The processes for valuing collateral

In compliance with relevant regulations, NLB Group has established a system for monitoring and reporting collateral at fair (market) value.

The market value of real estate used as collateral is obtained from valuation reports of licensed appraisers. The market value of movable property is obtained from valuation reports of licensed appraisers or from sales agreements. Both, valuation reports and sales agreements must not be older than one year. The market value of financial instruments held by NLB Group is obtained from the organised market – such as the stock exchange, for listed financial instruments or determined in accordance with the internal methodology for unlisted financial instruments (such collateral is used exceptionally and on a small scale in loans granted to companies and sole proprietors).

NLB has compiled a reference list of licensed appraisers for real estate. All appraisals must be made for the purpose of secured lending and in accordance with the international valuation standards (IVS, EVS, RICS). Appraisals related to retail loans are generally ordered only from appraisers with whom NLB has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal that is not made by an appraiser included on the NLB's reference list, the NLB's expert department, which employs certified appraisers in construction with licences granted by the Slovenian Ministry of Justice and certified real-estate appraisers with licences granted by the Slovenian Institute of Auditors, will verify the appraisal. The expert department is also responsible for reviewing valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all possessing the necessary licences. NLB Group has compiled a reference list of appraisers for valuations of real estate located outside the Republic of Slovenia. Appraisals must be made in accordance with the international valuation standards, and for large exposures, real-estate valuations must also be reviewed by an internal licensed appraiser with knowledge of the local real-estate market.

When assuring collateral, NLB Group follows the internal regulations which define the minimum security or pledge ratios. NLB Group strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral.

If real estate, movable property, and financial instruments serve as collateral, NLB Group's lien on such assets should be top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can have a different priority order.

NLB Group monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions. For example, the value of collateral using mortgaged real estate is monitored annually by either preparing individual assessments or using the internal methodology for preparing an own value appraisal of real estate (which applies to Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in the Republic of Slovenia).

j) The main types of collateral taken by the Bank

The NLB Group accepts different forms of material and personal security as loan collateral.

Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank.

The NLB Group accepts the following material types of loan collateral:

- collateral in the form of business and residential real estate;
- collateral in the form of movable property;
- cash receivable collateral;
- collateral by a pledge of financial assets (bank deposits or cash-like instruments, debt securities of different issuers, investment fund units, equity securities, or convertible bonds);
- pledge of an equity stake;
- pledge or assignment of receivables as collateral; and
- other material forms of loan collateral (for examples, life insurance policies pledged to NLB).

Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting.

NLB Group accepts the following types of personal loan collateral:

- joint and several guarantees by retail and corporate clients;
- bank guarantees;
- government guarantees (e.g. of the Republic of Slovenia);
- guarantees by national and regional development agencies; and
- other types of personal loan collateral (e.g. insurance with an insurance company).

Loans are very often secured by a combination of collateral types.

The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the client's creditworthiness (credit ranking), loan maturity, and varies depending on whether the loan is granted to retail or a corporate client.

NLB has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and

Mapping Authority in the Republic of Slovenia which allows direct and immediate verification of the existence of property.

The NLB Group strives to ensure the best possible collateral for long-term loans, in particular mortgages where possible. As a result, the mortgaging of real estate is the most frequent form of loan collateral of corporate and retail clients. In corporate loans, the next most frequent forms of collateral are government and corporate guarantees, while in retail loans, it is insurance companies and guarantors.

k) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral. However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. NLB Group has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience, regulatory guidelines, and are prescribed in the Collateral Manual.

NLB Group pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

NLB Group has the largest concentration on collaterals arising from mortgages on real estate, which is a comparatively reliable and quality type of collateral; however, among others due to the falling real estate market prices in recent history, the Bank closely monitors the real-estate collateral values and, where required, establishes higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value (specified in the Collateral Manual) which are expected to be achieved in a sale (expected payment from collateral).

Collateral consisting of securities entails market risk, specifically the risk of changes in the prices of securities on capital markets. To limit such risks and restrict the possibility of the value of instruments received as collateral falling below approved limits, the Rules determine minimum pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB. Deviations from the Rules are subject to the prior approval of the respective decision bodies of the Bank. The ratio between the loan amount and the securities' value is determined with regard to the securities' liquidity, maturity, correlation with changes in market indexes, i.e. by considering the key features reflecting the level of volatility of market prices, and the ability to sell the securities at the market price. For certain types of securities, the ratio is also determined by considering the issuer's credit rating, which reflects the credit risk entailed in collateral-using securities. In the case of adverse changes in the capital markets, the loan-to-collateral ratio may fall below the prescribed limit; in such a case, the debtor will be asked to provide additional securities or another type of collateral.

Collateral consisting of the sureties of corporate clients, sureties of private individuals, and bank guarantees entail the credit risk of the provider of the collateral. NLB Group includes the amount of the guarantees received in the exposure of the guarantor, and guarantees are only taken into account as collateral if the guarantor has sufficient overall creditworthiness.

The Collateral Manual regulates which forms of collateral are acceptable, and which preconditions a type of collateral needs to fulfill to be able to be considered.

l) Credit quality analysis for financial assets and contingent liabilities

in EUR thousands

31 Dec 2018	NLB Group 12-month expected credit losses	NLB Group Lifetime ECL not credit - impaired	NLB Group Lifetime ECL credit-impaired	NLB Group Purchased credit-impaired financial assets	NLB Group Total	NLB 12-month expected credit losses	NLB Lifetime ECL not credit - impaired	NLB Lifetime ECL credit-impaired	NLB Purchased credit-impaired financial assets	NLB Total
Debt securities at amortised cost										
A	1,144,444	-	-	-	1,144,444	1,144,444	-	-	-	1,144,444
B	287,416	-	-	-	287,416	131,857	-	-	-	131,857
C	-	-	-	-	-	-	-	-	-	-
D and E	-	-	-	-	-	-	-	-	-	-
Loss allowance	(2,898)	-	-	-	(2,898)	(1,323)	-	-	-	(1,323)
Carrying amount	1,428,962	-	-	-	1,428,962	1,274,978	-	-	-	1,274,978
Loans and advances to banks at amortised cost										
A	95,110	-	-	-	95,110	108,931	-	-	-	108,931
B	23,212	-	-	-	23,212	1,443	-	-	-	1,443
C	500	-	-	-	500	-	-	-	-	-
D and E	-	-	-	-	-	-	-	-	-	-
Loss allowance	(126)	-	-	-	(126)	(77)	-	-	-	(77)
Carrying amount	118,696	-	-	-	118,696	110,297	-	-	-	110,297
Loans and advances to customers at amortised cost										
A	4,621,756	66,636	-	-	4,688,392	3,095,962	9,340	-	-	3,105,302
B	1,747,074	174,010	-	-	1,921,084	987,771	52,167	-	-	1,039,938
C	57,990	337,289	-	-	395,279	63,011	146,684	-	-	209,695
D and E	-	-	567,236	6,209	573,445	-	-	293,852	5,249	299,101
Loss allowance	(41,452)	(35,537)	(374,394)	(2,184)	(453,567)	(16,789)	(12,660)	(170,965)	(2,145)	(202,559)
Carrying amount	6,385,368	542,398	192,842	4,025	7,124,633	4,129,955	195,531	122,887	3,104	4,451,477
Other financial assets at amortised cost										
A	46,518	87	-	-	46,605	34,797	4	-	-	34,801
B	25,959	254	-	-	26,213	6,692	161	-	-	6,853
C	181	549	-	-	730	156	51	-	-	207
D and E	-	-	9,793	26	9,819	-	-	2,765	3	2,768
Loss allowance	(182)	(58)	(7,955)	(1)	(8,196)	(27)	(6)	(1,854)	(1)	(1,888)
Carrying amount	72,476	832	1,838	25	75,171	41,618	210	911	2	42,741
Debt instruments at fair value through other comprehensive income										
A	1,501,073	-	-	-	1,501,073	1,429,332	-	-	-	1,429,332
B	347,707	-	-	-	347,707	54,250	-	-	-	54,250
C	-	238	-	-	238	-	-	-	-	-
D and E	-	-	-	-	-	-	-	-	-	-
Loss allowance	(3,597)	(75)	(798)	-	(4,470)	(1,541)	-	(798)	-	(2,339)
Contingent liabilities										
A	983,559	10,759	-	-	994,318	793,590	932	-	-	794,522
B	784,251	86,332	-	-	870,583	539,091	59,892	-	-	598,983
C	16,435	94,641	-	-	111,076	9,119	62,477	-	-	71,596
D and E	-	-	66,283	3,258	69,541	-	-	61,325	3,258	64,583
Loss allowance	(9,044)	(3,264)	(26,086)	(688)	(39,082)	(4,071)	(821)	(23,936)	(688)	(29,516)
Carrying amount	1,775,201	188,468	40,197	2,570	2,006,436	1,337,729	122,480	37,389	2,570	1,500,168

m) Net loans and advances neither past due nor impaired (IAS 39)

in EUR thousands

	NLB Group					NLB				
31 Dec 2017	**A**	**B**	**C**	**D and E**	**Total**	**A**	**B**	**C**	**D and E**	**Total**
Debt securities	82,133	-	-	-	82,133	82,133	-	-	-	82,133
Loans to government	289,716	152,180	7,460	11	449,367	282,201	72,564	244	-	355,009
Loans to banks	397,689	115,001	751	-	513,441	341,512	120,559	251	-	462,322
Loans to financial organisations	45,448	17,955	13,692	-	77,095	40,522	180,631	46,933	-	268,086
Loans to individuals	3,219,833	38,474	27,055	159	3,285,521	2,019,919	2,446	12,308	-	2,034,673
Loans to other customers	861,666	1,557,306	270,397	6,334	2,695,703	700,560	912,760	82,940	4,218	1,700,478
Other financial assets	42,706	13,147	1,342	72	57,267	26,432	9,740	810	1	36,983
Total	**4,939,191**	**1,894,063**	**320,697**	**6,576**	**7,160,527**	**3,493,279**	**1,298,700**	**143,486**	**4,219**	**4,939,684**

n) Net loans and advances past due but not individually impaired (IAS 39)

in EUR thousands

	NLB Group				NLB			
31 Dec 2017	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
Loans to government	2,059	1,936	-	3,995	-	-	-	-
Loans to banks	20	-	-	20	-	-	-	-
Loans to financial organisations	15	-	-	15	6	-	-	6
Loans to individuals	27,979	16,180	827	44,986	16,447	5,242	8	21,697
Loans to other customers	33,298	10,309	15,287	58,894	1,451	242	10,730	12,423
Other financial assets	6,768	118	46	6,932	10	16	4	30
Total	**70,139**	**28,543**	**16,160**	**114,842**	**17,914**	**5,500**	**10,742**	**34,156**

* The loans and advances disclosed in the above tables are not individually impaired since they are fully or over collateralised.

o) Individually impaired loans and advances (IAS 39)

in EUR thousands

31 Dec 2017	NLB Group			NLB		
	Gross value	Impairment provision	Net value	Gross value	Impairment provision	Net value
Loans to government	8,652	(4,934)	3,718	6,107	(2,441)	3,666
Loans to financial organisations	2,899	(2,807)	92	2,899	(2,807)	92
Loans to individuals	107,917	(66,478)	41,439	49,882	(23,690)	26,192
Loans to other customers	695,443	(443,935)	251,508	397,123	(231,968)	165,155
Other financial assets	10,278	(8,220)	2,058	3,938	(2,562)	1,376
Total	**825,189**	**(526,374)**	**298,815**	**459,949**	**(263,468)**	**196,481**

p) Net loans analysis (IAS 39)

in EUR thousands

31 Dec 2017	NLB Group			
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	82,133	-	-	82,133
Loans to government	449,367	3,995	3,718	457,080
Loans to banks	513,441	20	-	513,461
Loans to financial organisations	77,095	15	92	77,202
Loans to individuals	3,285,521	44,986	41,439	3,371,946
Loans to other customers	2,695,703	58,894	251,508	3,006,105
Other financial assets	57,267	6,932	2,058	66,257
Total	**7,160,527**	**114,842**	**298,815**	**7,574,184**

in EUR thousands

31 Dec 2017	NLB			
	Loans and advances neither past due nor impaired	Loans and advances past due but not impaired	Individually impaired loans and advances	Total
Debt securities	82,133	-	-	82,133
Loans to government	355,009	-	3,666	358,675
Loans to banks	462,322	-	-	462,322
Loans to financial organisations	268,086	6	92	268,184
Loans to individuals	2,034,673	21,697	26,192	2,082,562
Loans to other customers	1,700,478	12,423	165,155	1,878,056
Other financial assets	36,983	30	1,376	38,389
Total	**4,939,684**	**34,156**	**196,481**	**5,170,321**

r) Forborne loans

in EUR thousands

31 Dec 2018	NLB Group: All forborne exposures: Total	Performing	Non - performing: Impaired	Non - performing: Defaulted	Impairment, provisions and value adjustments: Performing forborne exposures	Impairment, provisions and value adjustments: Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**405,761**	**73,018**	**332,743**	**332,743**	**(5,174)**	**(203,851)**	**128,942**
Governments	7,264	-	7,264	7,264	-	(3,802)	3,462
Other financial organisations	1,971	36	1,935	1,935	(1)	(1,935)	-
Non-financial organisations	360,203	59,192	301,011	301,011	(4,694)	(190,200)	111,554
Households	36,323	13,790	22,533	22,533	(479)	(7,914)	13,926
Debt instruments other than HFT	**405,761**	**73,018**	**332,743**	**332,743**	**(5,174)**	**(203,851)**	**128,942**
Loan commitments given	**5,233**	**1,173**	**4,061**	**4,061**	**(10)**	**(1,055)**	**2,438**
Total exposures with forbearance measures	**410,994**	**74,191**	**336,804**	**336,804**	**(5,184)**	**(204,906)**	**131,380**

in EUR thousands

31 Dec 2017	NLB Group: All forborne exposures: Total	Performing	Non - performing: Impaired	Non - performing: Defaulted	Impairment, provisions and value adjustments: Performing forborne exposures	Impairment, provisions and value adjustments: Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**606,884**	**78,035**	**528,849**	**528,849**	**(9,110)**	**(317,912)**	**194,738**
Governments	7,522	-	7,522	7,522	-	(3,882)	3,640
Other financial organisations	2,944	48	2,896	2,896	(3)	(2,806)	2
Non-financial organisations	558,775	67,871	490,904	490,904	(7,969)	(299,399)	176,317
Households	37,643	10,116	27,527	27,527	(1,138)	(11,825)	14,779
Debt instruments other than HFT	**606,884**	**78,035**	**528,849**	**528,849**	**(9,110)**	**(317,912)**	**194,738**
Loan commitments given	**10,638**	**1,128**	**9,510**	**9,510**	**(1)**	**(6,081)**	**3,421**
Total exposures with forbearance measures	**617,522**	**79,163**	**538,359**	**538,359**	**(9,111)**	**(323,993)**	**198,159**

in EUR thousands

	NLB						
	All forborne exposures				Impairment, provisions and value adjustments		
			Non - performing				
31 Dec 2018	Total	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**272,395**	**54,691**	**217,704**	**217,704**	**(3,794)**	**(115,793)**	**100,986**
Governments	5,870	-	5,870	5,870	-	(2,408)	3,462
Other financial organisations	1,971	36	1,935	1,935	(1)	(1,935)	
Non-financial organisations	239,301	43,733	195,568	195,568	(3,430)	(108,016)	87,148
Households	25,253	10,922	14,331	14,331	(363)	(3,434)	10,376
Debt instruments other than HFT	**272,395**	**54,691**	**217,704**	**217,704**	**(3,794)**	**(115,793)**	**100,986**
Loan commitments given	**5,216**	**1,156**	**4,060**	**4,060**	**(8)**	**(1,055)**	**2,438**
Total exposures with forbearance measures	**277,611**	**55,847**	**221,764**	**221,764**	**(3,802)**	**(116,848)**	**103,424**

in EUR thousands

	NLB						
	All forborne exposures				Impairment, provisions and value adjustments		
			Non - performing				
31 Dec 2017	Total	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**398,889**	**57,609**	**341,280**	**341,280**	**(5,762)**	**(186,782)**	**139,111**
Governments	6,017	-	6,017	6,017	-	(2,373)	3,643
Other financial organisations	2,944	48	2,896	2,896	(3)	(2,806)	2
Non-financial organisations	365,879	50,535	315,344	315,344	(4,962)	(174,989)	125,712
Households	24,049	7,026	17,023	17,023	(797)	(6,614)	9,754
Debt instruments other than HFT	**398,889**	**57,609**	**341,280**	**341,280**	**(5,762)**	**(186,782)**	**139,111**
Loan commitments given	**9,490**	**1,118**	**8,372**	**8,372**	**(1)**	**(5,414)**	**2,951**
Total exposures with forbearance measures	**408,379**	**58,727**	**349,652**	**349,652**	**(5,762)**	**(186,782)**	**142,062**

Forborne exposures by periods of restructuring

in EUR thousands

	NLB Group			
31 Dec 2018	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	4,527	14,911	11,042	37,364
Non-performing exposures	1,309	5,081	3,096	126,178
Total exposures with forbearance measures	**5,836**	**19,992**	**14,138**	**163,542**
31 Dec 2017				
Performing exposures	3,656	910	2,259	62,100
Non-performing exposures	12,313	6,054	17,189	175,381
Total exposures with forbearance measures	**15,969**	**6,964**	**19,448**	**237,481**

in EUR thousands

	NLB			
31 Dec 2018	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	2,264	12,821	7,329	28,483
Non-performing exposures	1,070	4,670	2,741	98,353
Total exposures with forbearance measures	**3,334**	**17,491**	**10,070**	**126,836**
31 Dec 2017				
Performing exposures	2,950	420	1,446	47,031
Non-performing exposures	11,512	5,311	14,717	122,958
Total exposures with forbearance measures	**14,462**	**5,731**	**16,163**	**169,989**

Main forbearance measurements, used by NLB Group and NLB are deferral of payment, reduction of interest rates, acquisition of collateral for partial repayment of claims and others, either as a single forbearance measurement or as a combination of those.

s) Repossessed assets

NLB Group and NLB received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Nature of assets	**Net value**		**Net value**	
Equity securities mandatorily measured at fair value through profit or loss (note 5.3.a)	624	-	624	-
Equity securities measured at fair value through OCI (note 5.4.b)	3,185	-	-	-
Securities available-for-sale (IAS 39) (note 5.5.b)	-	3,536	-	480
Investment property (note 5.12.)	38,747	40,809	6,464	4,286
Property and equipment (note 5.11.)	1,418	1,355	7	7
Investments in subsidiaries and associates	-	-	2,444	2,464
Real estates (note 5.15.)	59,540	76,222	5,815	4,811
Other assets (note 5.15.)	633	1,278	-	-
Total	**104,147**	**123,200**	**15,354**	**12,048**

t) Analysis of loans and advances by industry sectors

in EUR thousands

NLB Group	31 Dec 2018				31 Dec 2017			
Industry sector	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**	**Gross loans**	**Impairment provisions**	**Net loans**	**(%)**
Banks	118,822	(126)	118,696	1.62	514,037	(576)	513,461	6.78
Finance	72,219	(3,012)	69,207	0.94	60,485	(3,065)	57,420	0.76
Electricity, gas, and water	139,953	(4,232)	135,721	1.85	155,911	(8,846)	147,065	1.94
Construction industry	253,536	(61,675)	191,861	2.61	236,617	(69,045)	167,572	2.21
Heavy industry	851,033	(60,441)	790,592	10.77	819,887	(79,497)	740,390	9.78
Education	12,593	(447)	12,146	0.17	14,230	(872)	13,358	0.18
Agriculture, forestry, and fishing	55,129	(7,439)	47,690	0.65	52,168	(8,264)	43,904	0.58
Public sector	248,448	(5,144)	243,304	3.31	314,481	(6,285)	308,196	4.07
Individuals	3,726,531	(84,479)	3,642,052	49.60	3,470,153	(98,207)	3,371,946	44.52
Mining	17,171	(4,103)	13,068	0.18	15,404	(1,675)	13,729	0.18
Entrepreneurs	143,636	(3,944)	139,692	1.90	128,534	(5,585)	122,949	1.62
Services	599,224	(69,137)	530,087	7.22	662,657	(123,226)	539,431	7.12
Transport and communications	703,935	(25,090)	678,845	9.25	839,171	(35,281)	803,890	10.61
Trade industry	752,807	(122,910)	629,897	8.58	840,189	(204,457)	635,732	8.39
Health care and social security	25,785	(1,514)	24,271	0.33	31,331	(2,447)	28,884	0.38
Other financial assets	83,367	(8,196)	75,171	1.02	77,962	(11,705)	66,257	0.87
Total	**7,804,189**	**(461,889)**	**7,342,300**	**100.00**	**8,233,217**	**(659,033)**	**7,574,184**	**100.00**

in EUR thousands

NLB	31 Dec 2018				31 Dec 2017			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	110,374	(77)	110,297	2.38	462,322	-	462,322	8.94
Finance	162,765	(4,645)	158,120	3.41	251,303	(9,150)	242,153	4.68
Electricity, gas, and water	100,813	(2,665)	98,148	2.12	109,457	(3,498)	105,959	2.05
Construction industry	97,225	(38,375)	58,850	1.27	111,832	(41,618)	70,214	1.36
Heavy industry	561,905	(15,306)	546,599	11.80	551,816	(30,004)	521,812	10.09
Education	7,314	(38)	7,276	0.16	8,779	(33)	8,746	0.17
Agriculture, forestry, and fishing	14,373	(268)	14,105	0.30	15,087	(958)	14,129	0.27
Public sector	151,818	(1,534)	150,284	3.25	199,650	(1,710)	197,940	3.83
Individuals	2,241,624	(25,957)	2,215,667	47.84	2,121,167	(38,605)	2,082,562	40.28
Mining	9,645	(657)	8,988	0.19	7,454	(626)	6,828	0.13
Entrepreneurs	51,173	(1,451)	49,722	1.07	50,923	(2,040)	48,883	0.95
Services	404,209	(43,929)	360,280	7.78	494,815	(74,158)	420,657	8.14
Transport and communications	616,781	(10,986)	605,795	13.08	747,971	(17,192)	730,779	14.13
Trade industry	249,004	(55,673)	193,331	4.17	304,589	(96,358)	208,231	4.03
Health care and social security	11,981	(1,075)	10,906	0.24	11,830	(1,113)	10,717	0.21
Other financial assets	44,629	(1,888)	42,741	0.92	41,580	(3,191)	38,389	0.74
Total	**4,835,633**	**(204,524)**	**4,631,109**	**100.00**	**5,490,575**	**(320,254)**	**5,170,321**	**100.00**

u) Analysis of net loans and advances by geographical sectors

in EUR thousands

	NLB Group		NLB	
Country	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Republic of Slovenia	4,302,730	4,469,598	4,297,956	4,478,793
Other European Union members	168,657	484,919	100,769	428,772
Other countries	2,870,913	2,619,667	232,384	262,756
Total	**7,342,300**	**7,574,184**	**4,631,109**	**5,170,321**

v) Analysis of debt securities and derivative financial instruments by geographical sectors

in EUR thousands

31 Dec 2018	NLB Group					NLB			
Country	**Financial assets measured at amortised cost**	**Financial assets held for trading**	**Financial assets measured at fair value through OCI**	**Non-trading financial assets mandatory at FV through profit or loss**	**Derivative financial instruments**	**Financial assets measured at amortised cost**	**Financial assets held for trading**	**Financial assets measured at fair value through OCI**	**Derivative financial instruments**
Republic of Slovenia	452,212	36,808	513,229	-	10,797	452,212	36,808	460,838	10,797
Other members of European Union	748,529	10,121	984,904	1,271	4,203	748,529	10,121	974,281	4,203
- Italy	22,807	-	23,566	520	-	22,807	-	23,566	-
- Ireland	16,049	-	50,744	-	-	16,049	-	48,356	-
- France	132,083	-	127,192	103	90	132,083	-	123,040	90
- Belgium	75,679	4,028	61,166	-	337	75,679	4,028	58,135	337
- Netherlands	33,769	-	114,376	-	77	33,769	-	114,376	77
- Austria	76,278	3,088	34,086	-	-	76,278	3,088	34,086	-
- Germany	81,050	3,005	111,820	-	167	81,050	3,005	111,820	167
- Finland	36,312	-	80,679	648	-	36,312	-	79,627	-
- Sweden	3,005	-	36,700	-	-	3,005	-	36,700	-
- Denmark	-	-	36,241	-	-	-	-	36,241	-
- Luxembourg	91,963	-	29,619	-	-	91,963	-	29,619	-
- Great Britain	1,122	-	106,763	-	3,257	1,122	-	106,763	3,257
- Slovakia	11,019	-	43,043	-	-	11,019	-	43,043	-
- Spain	49,593	-	19,261	-	-	49,593	-	19,261	-
- Portugal	27,357	-	3,667	-	-	27,357	-	3,667	-
- Poland	6,388	-	46,617	-	-	6,388	-	46,617	-
- Czech Republic	1,023	-	19,717	-	-	1,023	-	19,717	-
- Hungary	25,706	-	3,607	-	-	25,706		3,607	-
- Romunia	23,730	-	-	-	-	23,730	-	-	-
- Other	33,596	-	36,040	-	275	33,596	-	36,040	275
United States of America	43,419	1,768	15,730	-	-	43,419	1,768	7,003	-
Other countries	184,802	-	335,155	738	329	30,818	-	41,460	331
- Macedonia	127,473	-	69,169	-	-	-	-	1,065	-
- Serbia	-	-	60,063	-	-	-	-	1,791	2
- Bosnia and Herzegovina	-	-	80,902	-	-	-	-	-	-
- Montenegro	26,511	-	24,929	-	-	-	-	1,055	-
- Switzerland	-	-	-	360	-	-	-	-	-
- Kosovo	-	-	62,543	-	329	-	-	-	329
- Iceland	5,130	-	-	-	-	5,130	-	-	-
- Norway	992	-	16,555	-	-	992	-	16,555	-
- Other	24,696	-	20,994	378	-	24,696	-	20,994	-
Total	**1,428,962**	**48,697**	**1,849,018**	**2,009**	**15,329**	**1,274,978**	**48,697**	**1,483,582**	**15,331**

Other members of the European Union included in the item 'Other' are Bulgaria, Cyprus, Croatia, Lithuania, and Latvia.

Other members of the 'Other countries' in the item 'Other' are Canada, Australia, and Russia.

in EUR thousands

31 Dec 2017	NLB Group						NLB				
Country	Loans and advances (IAS 39)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets (IAS 39)	Held-to-maturity financial assets (IAS 39)	Derivative financial instruments	Loans and advances (IAS 39)	Financial assets held for trading	Available-for-sale financial assets (IAS 39)	Held-to-maturity financial assets (IAS 39)	Derivative financial instruments
Republic of Slovenia	82,133	55,047	-	507,643	356,896	8,395	82,133	55,047	432,494	356,896	8,395
Other members of European Union	-	-	102	1,257,881	252,816	5,238	-	-	1,257,881	252,816	5,238
- Italy	-	-	-	46,196	-	-	-	-	46,196	-	-
- Ireland	-	-	-	48,639	-	-	-	-	48,639	-	-
- France	-	-	102	156,078	47,443	1	-	-	156,078	47,443	1
- Belgium	-	-	-	55,131	26,120	75	-	-	55,131	26,120	75
- Netherlands	-	-	-	118,611	27,180	313	-	-	118,611	27,180	313
- Austria	-	-	-	40,911	48,858	29	-	-	40,911	48,858	29
- Germany	-	-	-	177,541	57,785	79	-	-	177,541	57,785	79
- Finland	-	-	-	56,876	12,500	-	-	-	56,876	12,500	-
- Sweden	-	-	-	64,406	-	-	-	-	64,406	-	-
- Denmark	-	-	-	42,487	-	-	-	-	42,487	-	-
- Luxembourg	-	-	-	69,382	31,907	-	-	-	69,382	31,907	-
- Great Britain	-	-	-	120,749	-	4,632	-	-	120,749	-	4,632
- Slovakia	-	-	-	45,025	-	-	-	-	45,025	-	-
- Spain	-	-	-	31,357	-	-	-	-	31,357	-	-
- Portugal	-	-	-	13,378	-	-	-	-	13,378	-	-
- Poland	-	-	-	49,459	-	-	-	-	49,459	-	-
- Czech Republic	-	-	-	22,082	1,023	-	-	-	22,082	1,023	-
- Hungary	-	-	-	22,401	-	-	-	-	22,401	-	-
- Romunia	-	-	-	21,830	-	-	-	-	21,830	-	-
- Other	-	-	-	55,342	-	109	-	-	55,342	-	109
United States of America	-	4,117	-	17,229	-	-	-	4,117	17,229	-	-
Other countries	-	-	-	444,346	-	580	-	-	23,310	-	571
- Macedonia	-	-	-	171,751	-	4	-	-	-	-	-
- Serbia	-	-	-	56,615	-	5	-	-	-	-	-
- Bosnia and Herzegovina	-	-	-	78,421	-	-	-	-	-	-	-
- Montenegro	-	-	-	49,401	-	-	-	-	-	-	-
- Kosovo	-	-	-	64,848	-	571	-	-	-	-	571
- Iceland	-	-	-	3,218	-	-	-	-	3,218	-	-
- Norway	-	-	-	11,260	-	-	-	-	11,260	-	-
- Other	-	-	-	8,832	-	-	-	-	8,832	-	-
Total	**82,133**	**59,164**	**102**	**2,227,099**	**609,712**	**14,213**	**82,133**	**59,164**	**1,730,914**	**609,712**	**14,204**

Other members of the European Union included in the item ‘Other’ are Bulgaria, Cyprus, Croatia, Lithuania, and Latvia.

Other members of the Other countries in the item ‘Other’ are Canada, and Russia.

z) Structure of debt securities of the banking book according to the Fitch credit rating agency

in EUR thousands

	NLB Group				NLB			
	31 Dec 2018		31 Dec 2017		31 Dec 2018		31 Dec 2017	
Rating	**Carrying value**	**in %**	**Carrying value**	**in %**	**Carrying value**	**in %**	**Carrying value**	**in %**
AAA	529,385	16.1	365,985	12.6	520,658	18.9	365,985	15.1
AA	500,702	15.3	373,302	12.8	492,466	17.9	373,302	15.4
A	1,367,418	41.7	1,486,656	51.0	1,312,639	47.6	1,411,405	58.3
BBB	164,439	5.0	200,019	6.9	164,439	6.0	200,019	8.3
Other	716,037	21.8	489,294	16.8	268,358	9.7	72,048	3.0
Total	**3,277,980**	**100.0**	**2,915,256**	**100.0**	**2,758,560**	**100.0**	**2,422,759**	**100.0**

aa) Structure of debt securities of the trading book according to the Fitch credit rating agency

in EUR thousands

NLB Group and NLB	31 Dec 2018		31 Dec 2017	
Rating	**Carrying value**	**in %**	**Carrying value**	**in %**
A	36,808	75.6	-	-
AA	7,116	14.6	-	-
AAA	4,773	9.8	4,117	7.0
F1	-		15,016	25.4
Other	-		40,031	67.7
Total	**48,697**	**100.0**	**59,164**	**100.0**

bb) Internal rating of derivatives counterparties

in EUR thousands

	31 Dec 2018	31 Dec 2017
NLB Group and NLB	**in %**	**in %**
A	70.92	71.47
B	19.17	28.24
C	9.91	0.29
Total	**100.00**	**100.00**

All derivatives in the banking book are entered into with counterparties with an external investment-grade rating.

When derivatives are entered into on behalf of NLB Group's customers, such customers usually do not have an external rating, but all such transactions are covered through back-to-back transactions involving third parties with an external investment-grade rating.

cc) Debt securities in NLB's and NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousands

31 Dec 2018	NLB Group				NLB			
Internal rating	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Financial assets measured at amortised cost								
- debt securities	523	-	-	523	523	-	-	523
- loans and advances to banks	-	-	-	-	24,024	-	-	24,024
- loans and advances to customers	-	-	-	-	-	-	5,833	5,833
Total	**523**	**-**	**-**	**523**	**24,547**	**-**	**5,833**	**30,380**

in EUR thousands

31 Dec 2017	NLB Group				NLB			
Internal rating	**A**	**B**	**C**	**Total**	**A**	**B**	**C**	**Total**
Available-for-sale financial assets (IAS 39)	581	-	-	581	581	-	-	581
Loans and advances (IAS 39)								
- loans and advances to banks	-	-	-	-	10,962	-	-	10,962
- loans and advances to customers	-	-	-	-	-	-	5,506	5,506
Total	**581**	**-**	**-**	**581**	**11,543**	**-**	**5,506**	**17,049**

dd) Presentation of net financial instruments by measurement category

in EUR thousands

	NLB Group						
31 Dec 2018	**Financial assets held for trading**	**Non-trading financial assets mandatory at FV through P&L**	**Financial assets measured at FV through OCI**	**Financial assets measured at amortised cost**	**Financial leases**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,588,349	-	-	1,588,349
Securities	48,697	8,589	1,898,079	1,428,962	-	-	3,384,327
- Bonds	18,659	2,009	1,648,863	1,414,007	-	-	3,083,538
- Shares	-	2,513	49,061	-	-	-	51,574
- Commercial bills	-	-	100,757	-	-	-	100,757
- Treasury bills	30,038	-	99,398	14,955	-	-	144,391
- Investment funds	-	4,067	-	-	-	-	4,067
Derivatives	14,912	-	-	-	-	417	15,329
Loans and receivables	-	23,800	-	7,162,822	80,507	-	7,267,129
- Loans to government	-	-	-	345,838	6,908	-	352,746
- Loans to banks	-	-	-	118,696	-	-	118,696
- Loans to financial organisations	-	-	-	88,611	65	-	88,676
- Loans to individuals	-	-	-	3,601,829	40,223	-	3,642,052
- Loans to other customers	-	23,800	-	3,007,848	33,311	-	3,064,959
Other financial assets	-	-	-	75,171	-	-	75,171
Total financial assets	**63,609**	**32,389**	**1,898,079**	**10,255,304**	**80,507**	**417**	**12,330,305**

in EUR thousands

	NLB Group							
31 Dec 2017	**Financial assets held for trading**	**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets (IAS 39)**	**Loans and receivables (IAS 39)**	**Financial leases (IAS 39)**	**Held-to-maturity financial assets (IAS 39)**	**Derivatives for hedge accounting**	**Total**
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	1,256,481	-	-	-	1,256,481
Securities	59,164	5,003	2,280,283	82,133	-	609,712	-	3,036,295
- Bonds	4,117	102	1,809,040	82,133	-	609,712	-	2,505,104
- Shares	-	-	53,184	-	-	-	-	53,184
- Commercial bills	-	-	281,877	-	-	-	-	281,877
- Treasury bills	55,047	-	136,182	-	-	-	-	191,229
- Private equity fund	-	634	-	-	-	-	-	634
- Other investments	-	4,267	-	-	-	-	-	4,267
Derivatives	13,025	-	-	-	-	-	1,188	14,213
Loans and receivables	-	-	-	7,279,228	146,566	-	-	7,425,794
- Loans to government	-	-	-	448,198	8,882	-	-	457,080
- Loans to banks	-	-	-	513,461	-	-	-	513,461
- Loans to financial organisations	-	-	-	77,121	81	-	-	77,202
- Loans to individuals	-	-	-	3,295,336	76,610	-	-	3,371,946
- Loans to other customers	-	-	-	2,945,112	60,993	-	-	3,006,105
Other financial assets	-	-	-	66,257	-	-	-	66,257
Total financial assets	**72,189**	**5,003**	**2,280,283**	**8,684,099**	**146,566**	**609,712**	**1,188**	**11,799,040**

in EUR thousands

	NLB					
31 Dec 2018	Financial assets held for trading	Non-trading financial assets mandatory at FV through P&L	Financial assets measured at FV through OCI	Financial assets measured at amortised cost	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	795,102	-	795,102
Securities	48,697	2,547	1,528,314	1,274,978	-	2,854,536
- Bonds	18,659	-	1,433,476	1,264,958	-	2,717,093
- Shares	-	2,513	44,732	-	-	47,245
- Treasury bills	30,038	-	50,106	10,020	-	90,164
- Investment funds	-	34	-	-	-	34
Derivatives	14,914	-	-	-	417	15,331
Loans and receivables	-	26,594	-	4,561,774	-	4,588,368
- Loans to government	-	-	-	267,716	-	267,716
- Loans to banks	-	-	-	110,297	-	110,297
- Loans to financial organisations	-	-	-	177,744	-	177,744
- Loans to individuals	-	-	-	2,215,667	-	2,215,667
- Loans to other customers	-	26,594	-	1,790,350	-	1,816,944
Other financial assets	-	-	-	42,741	-	42,741
Total financial assets	**63,611**	**29,141**	**1,528,314**	**6,674,595**	**417**	**8,296,078**

in EUR thousands

	NLB						
31 Dec 2017	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets (IAS 39)	Loans and receivables (IAS 39)	Held-to-maturity financial assets (IAS 39)	Derivatives for hedge accounting	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	-	-	570,010	-	-	570,010
Securities	59,164	634	1,777,762	82,133	609,712	-	2,529,405
- Bonds	4,117	-	1,554,565	82,133	609,712	-	2,250,527
- Shares	-	-	46,848	-	-	-	46,848
- Commercial bills	-	-	136,279	-	-	-	136,279
- Cash certificates	-	-	-	-	-	-	-
- Treasury bills	55,047	-	40,070	-		-	95,117
- Private equity fund	-	634	-	-	-	-	634
Derivatives	13,016	-	-	-	-	1,188	14,204
Loans and receivables	-	-	-	5,049,799	-	-	5,049,799
- Loans to government	-	-	-	358,675	-	-	358,675
- Loans to banks				462,322			462,322
- Loans to financial organisations	-	-	-	268,184	-	-	268,184
- Loans to individuals	-	-	-	2,082,562	-	-	2,082,562
- Loans to other customers	-	-	-	1,878,056	-	-	1,878,056
Other financial assets	-	-	-	38,389	-	-	38,389
Total financial assets	**72,180**	**634**	**1,777,762**	**5,740,331**	**609,712**	**1,188**	**8,201,807**

As at 31 December 2018 and 31 December 2017, all of NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities, and financial liabilities measured at fair value through profit or loss, were carried at amortised cost.

6.2. Market risk

NLB defines market risk as the risk of potential financial losses due to changes in rates and/or market prices (exchange rates, credit spreads, and equity prices), or in parameters that affect prices (volatilities and correlations). Losses may impact profit or loss directly, for example in the case of trading book positions. However, for the banking book positions they are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value.

The Global Risk Department of NLB is independent from the trading activities and reports to the bank's committee ALCO. Global Risk also monitors and manages exposure to market risks separately for the banking and trading books. Exposures and limits are monitored daily and reported to the ALCO committee on a regular basis.

The bank uses a wide selection of quantitative and qualitative tools for measuring, managing, and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress testing, back-testing, scenarios, other market risk mitigants (concentration of exposures, gap limits, stop-loss limits, etc.), net interest income sensitivity, economic value of equity, and economic capital. Stress testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, NLB Group pursues the goal of low to medium exposure. NLB monitors the open position of NLB Group on an ongoing basis. The orientation of NLB Group in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. The conclusion of transactions involving derivatives at NLB is limited to the servicing of the clients' and hedging of the Group's own open positions. In accordance with the provisions of the Strategy on trading in financial instruments in NLB Group, the trading activities in other NLB Group members are very restricted. Thus, NLB is the only Group member with a trading book in accordance with CRR requirements.

Monitoring and managing NLB Group's exposure to market risks is decentralised. However, uniform guidelines and exposure limits for each type of risk are set for individual NLB Group entities. The methodologies are in line with regulatory requirements on individual and consolidated levels, while reporting to the regulator on the consolidated level is carried out using the standardised approach. Pursuant to the relevant policies, NLB Group entities must monitor and manage exposure to market risks and report to NLB accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of NLB Group (NLB Group ALCO).

6.2.1. Currency risk (FX)

Foreign currency risk (FX) is a risk of the potential losses from the open FX positions due to the changes of the foreign currency rates. The exposures of NLB to the movement of the FX rates have impact on the financial position and cash flows of the bank. The bank measures and manages the FX risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress testing.

In the trading book, similar to the other market risks, risk is managed on the basis of VaR limits which are approved by the Management Board of the bank and in accordance to the adopted policy of managing market risk in the trading book of NLB. Trading FX risk is managed on an integrated basis at a portfolio level.

NLB monitors and manages FX risk in the banking book according to the policy of managing FX risk in NLB. The policy is primarily composed to protect Common Equity Tier 1 against the negative effects of the volatility of the FX rates, whilst limiting the volatility in the profit and loss account. FX exposures in banking book result from core banking business activities.

Currency risk management in NLB Group is decentralised. Each member is responsible for its own currency risk policy, which also includes a limit system and is in line with the parent Bank's guidelines and standards, as well as local regulatory requirements. Policies are confirmed by either the local management board or supervisory board. NLB monitors and manages NLB Group currency risk exposure on a monthly basis for each member and on the consolidated level.

NLB Group banks follow the guidelines for managing FX lending in NLB Group. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks, and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

The positions of all currencies in the statement of financial position of NLB, for which a daily limit is set, are monitored daily. FX positions are managed by the Financial Markets Department on the basis of a report obtained from the Global Risk. The Financial Markets Department manages FX positions on the currency level so that they are always within the limits or closed.

Regarding structural FX positions on a consolidation level, assets, and liabilities held in foreign operations are translated into euro currency at the closing FX rate on the balance sheet date. Foreign exchange differences of non-euro assets and liabilities against euro are recognised in OCI, and therefore affect shareholder's equity and CET 1 capital. Group ALM employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Assets and Liabilities Committee of NLB Group (ALCO), and quarterly on the consolidated level.

a) The amount of financial instruments denominated in euros and in foreign currency

in EUR thousands

	NLB Group				
31 Dec 2018	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	1,096,342	34,242	45,790	411,975	1,588,349
Financial assets held for trading	61,841	1,768	-	-	63,609
Non-trading financial assets mandatorily at fair value through profit or loss	32,389	-	-	-	32,389
Financial assets measured at fair value through other comprehensive income	1,713,873	32,988	3,185	148,033	1,898,079
Financial assets measured at amortised cost					
- debt securities	1,250,734	49,632	-	128,596	1,428,962
- loans and advances to banks	31,097	54,084	6,292	27,223	118,696
- loans and advances to customers	6,013,913	45,751	61,923	1,003,046	7,124,633
- other financial assets	41,506	6,517	28	27,120	75,171
Derivatives - hedge accounting	417	-	-	-	417
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	-	-	-	2,517
Total financial assets	**10,244,629**	**224,982**	**117,218**	**1,745,993**	**12,332,822**
Financial liabilities					
Trading liabilities	12,259	-	-	41	12,300
Loans mandatorily at fair value through profit or loss	3,656	428	-	106	4,190
Derivatives - hedge accounting	29,474	-	-	-	29,474
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	11,867	4,403	3,256	7,249	26,775
- borrowings from banks and central banks	230,186	16,675	11,562	-	258,423
- due to customers	8,866,912	194,343	77,315	1,325,447	10,464,017
- borrowings from other customers	61,844	-	-	-	61,844
- subordinated liabilities	15,050	-	-	-	15,050
- other financial liabilities	82,091	1,191	1,498	16,107	100,887
Total financial liabilities	**9,313,339**	**217,040**	**93,631**	**1,348,950**	**10,972,960**
Net on-balance sheet financial position	**931,290**	**7,942**	**23,587**	**397,043**	**1,359,862**
Derivative financial instruments	21,590	434	(16,473)	(14,992)	(9,441)
Net financial position	**952,880**	**8,376**	**7,114**	**382,051**	**1,350,421**
31 Dec 2017					
Total financial assets	**9,932,783**	**208,375**	**113,510**	**1,537,767**	**11,792,435**
Total financial liabilities	**8,941,347**	**210,040**	**94,250**	**1,201,280**	**10,446,917**
Net on-balance sheet financial position	**991,436**	**(1,665)**	**19,260**	**336,487**	**1,345,518**
Derivative financial instruments	11,906	-	(12,818)	(8,014)	(8,926)
Net financial position	**1,003,342**	**(1,665)**	**6,442**	**328,473**	**1,336,592**

in EUR thousands

	NLB				
31 Dec 2018	**EUR**	**USD**	**CHF**	**Other**	**Total**
Financial assets					
Cash, cash balances at central banks, and other demand deposits at banks	735,423	16,832	16,295	26,552	795,102
Financial assets held for trading	61,843	1,768	-	-	63,611
Non-trading financial assets mandatorily at fair value through profit or loss	29,141	-	-	-	29,141
Financial assets measured at fair value through other comprehensive income	1,487,423	23,806	-	17,085	1,528,314
Financial assets measured at amortised cost					
- debt securities	1,224,223	49,632	-	1,123	1,274,978
- loans and advances to banks	88,165	8,730	-	13,402	110,297
- loans and advances to customers	4,339,281	40,613	63,334	8,249	4,451,477
- other financial assets	35,147	6,488	1	1,105	42,741
Derivatives - hedge accounting	417	-	-	-	417
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	-	-	-	2,517
Total financial assets	**8,003,580**	**147,869**	**79,630**	**67,516**	**8,298,595**
Financial liabilities					
Trading liabilities	12,256	-	-	-	12,256
Loans mandatorily at fair value through profit or loss	3,553	428	-	-	3,981
Derivatives - hedge accounting	29,474	-	-	-	29,474
Financial liabilities measured at amortised cost					
- deposits from banks and central banks	12,819	16,265	7,469	12,350	48,903
- borrowings from banks and central banks	215,896	16,675	11,562	-	244,133
- due to customers	6,853,796	105,825	43,662	30,126	7,033,409
- borrowings from other customers	4,128	-	-	-	4,128
- other financial liabilities	59,670	253	216	2,073	62,212
Total financial liabilities	**7,191,592**	**139,446**	**62,909**	**44,549**	**7,438,496**
Net on-balance sheet financial position	**811,988**	**8,423**	**16,721**	**22,967**	**860,099**
Derivative financial instruments	21,509	-	(16,033)	(14,845)	(9,369)
Net financial position	**833,497**	**8,423**	**688**	**8,122**	**850,730**
31 Dec 2017					
Total financial assets	**7,915,113**	**137,869**	**80,675**	**68,869**	**8,202,526**
Total financial liabilities	**6,999,721**	**138,414**	**67,114**	**51,359**	**7,256,608**
Net on-balance sheet financial position	**915,392**	**(545)**	**13,561**	**17,510**	**945,918**
Derivative financial instruments	11,906	-	(12,818)	(8,014)	(8,926)
Net financial position	**927,298**	**(545)**	**743**	**9,496**	**936,992**

b) FX sensitivity analysis

	NLB Group and NLB	
Scenarios	31 Dec 2018	31 Dec 2017
USD	+/-6%	+/-6%
CHF	+/-4%	+/-5%
CZK	+/-3%	+/-3%
RSD	+/-2%	+/-2%
MKD	+/-2%	+/-3%
JPY	+/-7%	+/-7%
AUD	+/-5%	+/-7%
HUF	+/-4%	+/-3%
HRK	+/-1%	+/-2%
BAM	+/-0%	+/-0%

in EUR thousands

	NLB Group		NLB	
31 Dec 2018	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	275	-	239	1
CHF	(263)	218	15	-
CZK	3	-	1	-
RSD	10	2,374	12	-
MKD	2	3,178	22	-
Other	31	148	87	-
Effects on comprehensive income	**58**	**5,918**	**376**	**1**
Depreciation of				
USD	(244)	-	(212)	(1)
CHF	241	(200)	(13)	-
CZK	(3)	-	(1)	-
RSD	(10)	(2,280)	(12)	-
MKD	(2)	(3,077)	(22)	-
Other	(22)	(145)	(77)	-
Effects on comprehensive income	**(40)**	**(5,702)**	**(337)**	**(1)**

in EUR thousands

31 Dec 2017	NLB Group		NLB	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Appreciation of				
USD	221	-	92	-
CHF	(308)	211	26	-
CZK	2	-	1	-
RSD	7	2,125	8	-
MKD	47	5,412	64	-
Other	(72)	338	6	-
Effects on comprehensive income	**(103)**	**8,086**	**197**	**-**
Depreciation of				
USD	(196)	-	(82)	-
CHF	281	(192)	(24)	-
CZK	(2)	-	(1)	-
RSD	(7)	(2,046)	(8)	-
MKD	(44)	(5,048)	(60)	-
Other	70	(327)	(6)	-
Effects on comprehensive income	**102**	**(7,613)**	**(181)**	**-**

6.2.2. Managing market risks in the trading book

Market risk exposure in the trading book arises mostly as a result of the changes in interest rates, credit spreads, FX rates, and equity prices.

The Management Board determines low total risk appetite and limits by the risk type. The limits are monitored daily by the Global Risk Department.

NLB uses an internal VaR model based on the variance-covariance method for other market risks. The daily calculation of the VAR value is adjusted to Basel standards (99% confidence interval, a monitored period of 250 business days, a 10-day holding position period).

6.2.3. Interest rate risk

Interest rate risk is the risk to NLB Group's capital and profit or loss arising from changes in market interest rates. Interest rate risk management of NLB Group includes all interest rate-sensitive on- and off-balance sheet assets and liabilities which are divided into the trading and banking book according to regulatory standards. It takes into account the positions in each currency. Interest rate risk management in NLB Group is adopted in accordance with the risk appetite and risk strategy, based on general Basel standards on interest rate management in the banking book (IRRB; hereinafter: 'Standards') and final European Banking Authority guidelines.

In the trading book interest rate risk is measured on the basis of the VaR method and BPV method, in accordance with the adopted policy for managing market risk in the trading book of NLB.

The interest rate risk in the banking book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, and limit systems. NLB Group manages interest rate risk exposure through application of two main measures:

- Economic value sensitivity – using BPV method (Basis Point Value), which measures the extent to which the value of the portfolio would change if interest rates changes according to the scenario.
- Sensitivity of net interest income – using EaR method (Earnings at Risk), which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

NLB Group regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in level and shape of interest rate yield curve, including all significant sources of risk, taking into account behavioural and modelling assumptions. Part of non-maturing deposits, which is considered as core part is allocated long-term by using replicating portfolio. Optionality risk is mainly derived from behavioural options, reflecting in prepayments and withdrawals, and embedded options such as caps and floors. Moreover, in light of expected cash flows, non-performing exposures, as well as off-balance sheet items are considered when measuring interest rate risk exposure. Optionality models are, to a large extent, based on linear regression using the historical data as input.

The interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The Group manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin, which is why valuation risk has been included in the Group's interest rate risk management model.

NLB Group manages interest rates risk also by using plain vanilla derivative financial instruments (interest rate swaps, overnight index swaps, cross currency swaps, and forward rate agreements), most of which are treated according to hedge accounting rules. Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where NLB Group recorded an increased volume of fixed interest rate loans and long-term banking book securities on the assets side and transformation of deposits from term to sight.

The management of NLB Group's interest rate exposure is decentralised. Each member of NLB Group is responsible for its own interest rate risk policy, which includes limit system and is in line with the parent Bank's guidelines and standards, as well as with the local regulatory requirements. NLB regularly monitors the interest rate risk exposure of individual member of NLB Group in accordance with the Standards for Risk Management in NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management within individual NLB Group members.

Interest rate risk in the banking book is measured, monitored, and reported weekly in the case of NLB by Global Risk Department, while positions are managed by Financial Markets and monthly on the Group level. Exposure to interest rate risk is discussed on ALCO monthly on NLB's individual level and quarterly on the consolidated level

a) Analysis of financial instruments according to the exposure to interest rate risk

Illustrated below are the carrying amounts of financial instruments categorised by the earlier of contractual reprising or residual maturity.

in EUR thousands

	NLB Group							
31 Dec 2018	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,588,349	468,535	1,119,814	1,119,814	-	-	-	-
Financial assets held for trading	63,609	14,912	48,697	-	26,828	10,039	-	11,830
Non-trading financial assets mandatorily at fair value through profit or loss	32,389	6,580	25,809	659	3,727	17,822	3,446	155
Financial assets measured at fair value through other comprehensive income	1,898,079	49,061	1,849,018	120,332	90,886	259,901	831,419	546,480
Financial assets measured at amortised cost								
- debt securities	1,428,962	-	1,428,962	40,896	79,979	122,692	566,502	618,893
- loans and advances to banks	118,696	27	118,669	96,853	10,423	11,377	16	-
- loans and advances to customers	7,124,633	72,813	7,051,820	1,576,821	1,087,822	2,499,063	1,295,776	592,338
- other financial assets	75,171	75,171	-	-	-	-	-	-
Derivatives - hedge accounting	417	417	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	2,517	-	-	-	-	-	-
Total financial assets	**12,332,822**	**690,033**	**11,642,789**	**2,955,375**	**1,299,665**	**2,920,894**	**2,697,159**	**1,769,696**
Financial liabilities								
Trading liabilities	12,300	12,300	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	4,190	4,190	-	-	-	-	-	-
Derivatives - hedge accounting	29,474	29,474	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	26,775	-	26,775	26,775	-	-	-	-
- borrowings from banks and central banks	258,423	-	258,423	4,498	74,431	162,384	16,811	299
- due to customers	10,464,017	73,980	10,390,037	8,699,749	350,176	895,822	440,544	3,746
- borrowings from other customers	61,844	-	61,844	1,619	5,410	10,113	20,830	23,872
- subordinated liabilities	15,050	-	15,050	133	-	14,917	-	-
- other financial liabilities	100,887	100,887	-	-	-	-	-	-
Total financial liabilities	**10,972,960**	**220,831**	**10,752,129**	**8,732,774**	**430,017**	**1,083,236**	**478,185**	**27,917**
Total interest repricing gap				**(5,777,399)**	**869,648**	**1,837,658**	**2,218,974**	**1,741,779**

in EUR thousands

	NLB Group							
31 Dec 2017	Total	Non-interest bearing	Interest bearing	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	531,414	725,067	725,067	-	-	-	-
Financial assets held for trading	72,189	13,025	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	5,003	4,901	102	-	-	102	-	-
Available-for-sale financial assets (IAS 39)	2,276,493	53,184	2,223,309	100,425	143,970	538,822	818,030	622,062
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances (IAS 39)								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	510,107	18	510,089	176,384	28,839	304,676	190	-
- loans and advances to customers	6,912,333	49,484	6,862,849	1,657,695	1,188,308	2,473,342	1,072,627	470,877
- other financial assets	66,077	66,077	-	-	-	-	-	-
Held-to-maturity financial assets (IAS 39)	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**11,792,435**	**720,010**	**11,072,425**	**2,697,641**	**1,456,405**	**3,325,717**	**2,153,822**	**1,438,840**
Financial liabilities								
Trading liabilities	9,502	9,502	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	40,602	5,788	34,814	34,573	-	-	241	-
- borrowings from banks and central banks	279,616	-	279,616	4,681	78,127	177,165	19,459	184
- due to customers	9,878,378	58,429	9,819,949	7,777,903	489,698	1,140,149	407,809	4,390
- borrowings from other customers	74,286	-	74,286	850	2,685	9,069	36,099	25,583
- subordinated liabilities	27,350	-	27,350	326	12,054	14,970	-	-
- other financial liabilities	111,019	111,019	-	-	-	-	-	-
Total financial liabilities	**10,446,917**	**210,902**	**10,236,015**	**7,818,333**	**582,564**	**1,341,353**	**463,608**	**30,157**
Total interest repricing gap				**(5,120,692)**	**873,841**	**1,984,364**	**1,690,214**	**1,408,683**

in EUR thousands

	NLB							
31 Dec 2018	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	795,102	153,315	641,787	641,787	-	-	-	-
Financial assets held for trading	63,611	14,914	48,697	-	26,828	10,039	-	11,830
Non-trading financial assets mandatorily at fair value through profit or loss	29,141	2,547	26,594	298	6,903	18,684	554	155
Financial assets measured at fair value through other comprehensive income	1,528,314	44,732	1,483,582	45,335	45,929	187,225	672,455	532,638
Financial assets measured at amortised cost								
- debt securities	1,274,978	-	1,274,978	38,025	76,090	101,186	440,784	618,893
- loans and advances to banks	110,297	11	110,286	30,244	17,086	54,573	8,383	-
- loans and advances to customers	4,451,477	47,373	4,404,104	1,175,203	892,032	1,641,273	376,628	318,968
- other financial assets	42,741	42,741	-	-	-	-	-	-
Derivatives - hedge accounting	417	417	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,517	2,517	-	-	-	-	-	-
Total financial assets	**8,298,595**	**308,567**	**7,990,028**	**1,930,892**	**1,064,868**	**2,012,980**	**1,498,804**	**1,482,484**
Financial liabilities								
Trading liabilities	12,256	12,256	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	3,981	3,981	-	-	-	-	-	-
Derivatives - hedge accounting	29,474	29,474	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	48,903	-	48,903	48,903	-	-	-	-
- borrowings from banks and central banks	244,133	-	244,133	85	74,431	156,870	12,747	-
- due to customers	7,033,409	-	7,033,409	6,422,293	210,091	327,967	70,233	2,825
- borrowings from other customers	4,128	-	4,128	1	-	4,088	32	7
- other financial liabilities	62,212	62,212	-	-	-	-	-	-
Total financial liabilities	**7,438,496**	**107,923**	**7,330,573**	**6,471,282**	**284,522**	**488,925**	**83,012**	**2,832**
Total interest repricing gap				**(4,540,390)**	**780,346**	**1,524,055**	**1,415,792**	**1,479,652**

in EUR thousands

	NLB							
31 Dec 2017	**Total**	**Non-interest bearing**	**Interest bearing**	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**
Financial assets								
Cash, cash balances at central banks, and other demand deposits at banks	570,010	143,725	426,285	426,285	-	-	-	-
Financial assets held for trading	72,180	13,016	59,164	-	55,060	5	2,438	1,661
Financial assets designated at fair value through profit or loss	634	634	-	-	-	-	-	-
Available-for-sale financial assets (IAS 39)	1,777,762	46,848	1,730,914	18,190	50,856	384,130	663,277	614,461
Derivatives - hedge accounting	1,188	1,188	-	-	-	-	-	-
Loans and advances (IAS 39)								
- debt securities	82,133	-	82,133	-	-	1,896	-	80,237
- loans and advances to banks	462,322	9	462,313	105,616	23,889	325,375	7,433	-
- loans and advances to customers	4,587,477	44,318	4,543,159	1,354,311	1,019,785	1,615,885	309,278	243,900
- other financial assets	38,389	38,389	-	-	-	-	-	-
Held-to-maturity financial assets (IAS 39)	609,712	-	609,712	38,070	40,228	6,874	260,537	264,003
Fair value changes of the hedged items in portfolio hedge of interest rate risk	719	719	-	-	-	-	-	-
Total financial assets	**8,202,526**	**288,846**	**7,913,680**	**1,942,472**	**1,189,818**	**2,334,165**	**1,242,963**	**1,204,262**
Financial liabilities								
Trading liabilities	9,398	9,398	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	635	635	-	-	-	-	-	-
Derivatives - hedge accounting	25,529	25,529	-	-	-	-	-	-
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	72,072	-	72,072	72,072				
- borrowings from banks and central banks	260,747	-	260,747	85	77,786	170,702	12,174	-
- due to customers	6,810,967	-	6,810,967	5,866,793	348,703	514,937	78,363	2,171
- borrowings from other customers	5,726	-	5,726	-	-	2	5,716	8
- other financial liabilities	71,534	71,534	-	-	-	-	-	-
Total financial liabilities	**7,256,608**	**107,096**	**7,149,512**	**5,938,950**	**426,489**	**685,641**	**96,253**	**2,179**
Total interest repricing gap				**(3,996,478)**	**763,329**	**1,648,524**	**1,146,710**	**1,202,083**

Cash flows are presented by taking into account their contractual maturity and according to the amortization schedule. Financial instruments without maturity such as sight deposits and financial instruments with expired maturity such as non-performing loans are presented in the first gap irrespective of their behavioural characteristics and the bank's expectations. For the purpose of risk management the banks uses different cash flows modelling techniques.

b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity for the horizon of the next 12 months assumes sudden parallel shock down in interest rates by 50 basis points for EUR, USD, and CHF currencies, while for all other significant currencies 100 basis points sudden parallel shock down is implied. The analysis is based on the assumption that the positions used remain unchanged.

The assessment of the impact of a change in interest rates of 50/100 basis points on the amount of net interest income of the banking book position:

in EUR thousands

	NLB Group			NLB		
2018	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	9,430	6,398	12,404	8,706	7,290	11,220
USD	473	379	546	301	217	374
CHF	149	22	195	148	22	186
OTHER	3,167	2,653	3,467	28	21	35

in EUR thousands

	NLB Group			NLB		
2017	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**	**Average (assessment)**	**Minimum (assessment)**	**Maximum (assessment)**
Interest income sensitivity						
EUR	11,682	9,027	14,764	10,729	7,867	13,486
USD	464	378	544	308	234	380
CHF	171	134	226	174	134	227
OTHER	1,293	953	1,641	33	24	41

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by -50/100 basis points represents a realistic and practical scenario. The “average” value represents the arithmetic mean of monthly calculations, while the “maximum” and “minimum” values represent the highest and lowest values calculated during the period. The calculations of sensitivity of net interest income are implemented in technological support.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The basis point value is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. The BPV method is used to assess the change in the value of a position in case market interest rates change given the six prescribed parallel and non-parallel shock scenarios.

The assessment of the impact of a change in interest rates of 200 basis points on the economic value of the banking book position:

in EUR thousands

	NLB Group			NLB		
2018	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	257,758	225,435	291,727	194,646	172,179	224,718
Interest risk in banking book - BPV, as % of equity	18.00%	16.55%	20.00%	16.39%	15.10%	18.55%

in EUR thousands

	NLB Group			NLB		
2017	Average (assessment)	Minimum (assessment)	Maximum (assessment)	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest risk in banking book - BPV	210,157	193,355	225,787	159,149	149,053	172,964
Interest risk in banking book - BPV, as % of equity	15.82%	14.47%	16.94%	14.00%	13.05%	15.14%

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps for NLB and monthly on the Group level. The applied sudden parallel shift of the yield curve is by 200 basis points, which represents a "worst case" scenario for NLB Group. The "average" value represents the arithmetic mean, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The calculation takes into the account allocation of the core part of non-maturing deposits and other behavioural assumptions.

Exposure to interest rate risk of the banking book mainly arises from investments in long-term debt securities and loans with fixed interest rate, as well as from transformation of term to sight deposits. Long-term interest positions of other members in NLB Group, of which present a majority of their exposure to interest-rate risk (an economic point of view), mainly arise from a portfolio of mortgage loans with a fixed interest rate.

6.2.4. Risk of changes in prices in the portfolio of equity securities in the banking book

NLB Group's financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stockbrokerage services are provided.

In terms of equity security investments, NLB has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, NLB also uses an internal model which has been adapted in accordance with the requirements of the Basel standards for monitoring and measuring risks related to the equity portfolio.

The carrying value of the equities portfolio in the banking book of NLB Group and NLB is represented in notes 5.3. and 5.4. for 2018 and for 2017 in note 5.5.

6.3. Liquidity risk

Liquidity risk is the risk that NLB Group is unable to meet all of its actual and potential payments or collateral posting obligations, as well as the risk that NLB Group is unable to fund the growth of assets at reasonable prices, or only at excessive cost.

There are two types of risk:

- Funding liquidity risk is the risk of not being able to accommodate both expected and unexpected current and future cash outflows and collateral needs because insufficient cash is available. Eventually, this will affect the Group's daily operations or its financial conditions.
- Market Liquidity risk is a risk that the Group cannot sell an asset on time at a reasonable price due to insufficient market depth (insufficient supply and demand) or market disruptions. Market risk includes the sensitivity in liquidity value of a portfolio due to changes in the applicable haircuts and market value. It also concerns uncertainty about the time required to realise the liquidity value of the assets.

Liquidity risk is defined as an important risk type at NLB Group, which has to be managed carefully. NLB Group has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. NLB Group formulated a set of liquidity risk metrics and limits to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding and holding a solid liquidity buffer, the NLB Group maintains a sound and robust liquidity position, even under severely adverse conditions.

The Management Board approves the Liquidity Risk Management Policy, which outlines the key principles for the bank's liquidity management. ALCO receives a regular report on the liquidity positon and the performance against approved limits and targets. ALCO oversees the development of the bank's funding and liquidity positon and decides on liquidity risk-related issues in NLB Group.

Risk tolerance for liquidity risk is low, therefore NLB Group maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. NLB Group measures and manages its liquidity in three stages:

- Current exposure and compliance with the limits,
- Forward-looking and stress testing,
- Liquidity in exceptional circumstances.

The objectives of monitoring and managing liquidity risk in NLB Group are as follows:

- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the amount of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios;
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances;
- preparing dynamic projections of liquidity taking several cash-flow scenarios of the bank into account; and
- preparing proposals for establishing additional financial assets as collateral for sources of funding.

Overall assessment of the liquidity position of NLB Group is assessed in the Internal Liquidity Adequacy Assessment Process (ILAAP) at least once per year for NLB Group, and it includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. NLB Group maintains a sufficient amount of liquidity reserves in the form of high credit quality debt securities that are eligible for refinancing via the ECB/central bank or on the market. In the current situation, NLB Group also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. NLB Group regularly performs stress tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. In addition, special attention is given to the fulfillment of the liquidity regulation (CRR/CRD), with monitoring and reporting of the liquidity coverage ratio (LCR) according to the Delegated Act and net stable funding ratio (NSFR). This also includes monitoring and reporting of Additional Liquidity Monitoring Metrics (ALMM) on solo and consolidated levels. In accordance with the Commission Implementing Regulation (EU), NLB Group regularly monitors and issues quarterly reports on asset encumbrance.

The Group regularly prepares a static liquidity mismatch table by residual maturity and dynamic liquidity projections taking several cash-flow scenarios into account to ensure monitoring over the liquidity position of each NLB Group member.

The Group manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks in advance, based on the planning and monitoring of cash flows. Liquidity management on the operational level is decentralised in NLB Group. Each NLB Group member is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions;
- forming and managing liquidity reserves; and
- performing liquidity stress test to define the liquidity buffer for smooth functioning of the payment system in stressed circumstances.

NLB Group members actively manage liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

The Group members have defined a liquidity management plan for exceptional circumstances that lays down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

Liquidity risk management in NLB Group is decentralised under strict monitoring by NLB as a parent bank. Reporting to NLB by all group members is done on a daily basis. Global Risk gives guidelines and defines minimal standards for group members regarding liquidity risk management in NLB Group Risk Management Standards. Decentralised liquidity management means that each group member is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure of an individual NLB Group member towards liquidity risk is regularly monitored and reported to ALCO and to local Assets and Liabilities Committees.

a) Managing NLB Group's liquidity reserves

NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and term deposits at banks, debt securities and loans eligible as collateral for Eurosystem's liquidity providing operations, on the basis of which the Bank may generate the requisite liquidity at any time. Available liquidity reserves are liquidity reserves decreased by the reserve requirement, required balances for the continuous performance of payment transactions, encumbered securities, and/or credit claims for different purposes (secured funding).

The minimum and optimum amount of liquidity reserves is determined on the basis of the methodology pertaining to liquidity risk stress tests. The amount represents the survival of a severe stress over a period of three months in a combined stress scenario.

The structure of liquidity reserves is shown in the following table.

Liquid assets

in EUR thousands

	NLB Group		NLB	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Liquid assets				
Cash, cash balances at central banks, and other demand deposits at banks	1,588,349	1,256,481	795,102	570,010
Time deposits at banks	116,450	506,322	69,639	437,427
Trading book securities	48,697	59,164	48,697	59,164
Banking book securities	3,277,980	2,915,154	2,758,560	2,422,759
ECB eligible loans	140,777	717,503	140,777	717,503
Total liquid assets	**5,172,253**	**5,454,624**	**3,812,775**	**4,206,863**

As at 31 December 2018, 77.5% (31 December 2017: 74.6%) of debt securities in the banking book of NLB Group were government securities (including government guaranteed bonds – GGB), and 9.7% (31 December 2017: 18.0%) were senior unsecured bonds.

The purpose of banking book securities is to provide liquidity, along with stabilisation of the interest margin and interest rate risk management simultaneously. When managing the portfolio, NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and asset class. The framework for managing the banking book securities are the Policy for managing debt securities in the Financial markets' banking book and the Policy for Managing Domestic (Slovene) Corporate Debt Securities in Large Corporates, which clearly define the objectives and characteristics of the associated portfolio.

The ECB-eligible credit claims comprise loans which fulfill the high eligibility criteria set by the ECB itself and for domestic loans are specified in the general terms about execution of monetary policy framework (Part 4) adopted by the Bank of Slovenia. NLB is the only member of NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. This is why these ECB credit claims are included among liquidity reserves.

Members of NLB Group manage their liquid assets on a decentralised basis in compliance with the local liquidity regulation and valid policies of NLB Group.

b) Encumbered assets

in EUR thousands

2018	NLB Group: Carrying amount of encumbered assets	NLB Group: Fair value of encumbered securities	NLB Group: Carrying amount of unencumbered assets	NLB Group: Fair value of unencumbered securities	NLB: Carrying amount of encumbered assets	NLB: Fair value of encumbered securities	NLB: Carrying amount of unencumbered assets	NLB: Fair value of unencumbered securities
Loans on demand	-	-	1,275,601	-	-	-	641,787	-
Equity instruments	-	-	55,641	55,641	-	-	47,279	47,279
Debt securities	59,696	64,791	3,268,990	3,302,832	59,696	64,791	2,747,561	2,781,400
Loans and advances other than loans on demand	59,421	-	7,282,879	-	54,928	-	4,576,181	-
Other assets	-	-	737,801	-	-	-	683,615	-
Total	**119,117**		**12,620,912**		**114,624**		**8,696,423**	

in EUR thousands

2017	NLB Group: Carrying amount of encumbered assets	NLB Group: Fair value of encumbered securities	NLB Group: Carrying amount of unencumbered assets	NLB Group: Fair value of unencumbered securities	NLB: Carrying amount of encumbered assets	NLB: Fair value of encumbered securities	NLB: Carrying amount of unencumbered assets	NLB: Fair value of unencumbered securities
Loans on demand	-	-	986,785	-	-	-	426,284	-
Equity instruments	-	-	58,085	58,085	-	-	47,482	47,482
Debt securities	63,341	69,441	2,911,079	2,951,137	62,625	68,725	2,419,298	2,459,356
Loans and advances other than loans on demand	58,763	-	7,429,754	-	53,964	-	5,034,224	-
Other assets	-	-	729,938	-	-	-	668,955	-
Total	**122,104**		**12,115,641**		**116,589**		**8,596,243**	

c) Collateral received - unencumbered

The nominal amount of collateral received or own debt securities issued not available for encumbrance is shown in the table below:

in EUR thousands

	NLB Group		NLB	
	2018	2017	2018	2017
Equity instruments	215,033	193,439	199,652	180,034
Loans and advances other than loans on demand	117,661	118,179	23,303	29,024
Other assets	7,360,279	7,415,905	3,735,514	3,763,844
Total	**7,692,973**	**7,727,523**	**3,958,469**	**3,972,902**

d) Source of encumbrance

in EUR thousands

	NLB Group				NLB			
	2018		2017		2018		2017	
	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral	Collateralised liability	Assets given as collateral
Derivatives	39,597	54,928	33,529	53,964	39,597	54,928	33,529	53,964
Deposits and loans	5,533,871	59,696	5,277,263	63,341	5,533,871	59,696	5,276,547	62,625
Other securities of encumbrance	4,296	4,493	4,570	4,799	-	-	-	-
Total	**5,577,764**	**119,117**	**5,315,362**	**122,104**	**5,573,468**	**114,624**	**5,310,076**	**116,589**

As at 31 December 2018, NLB Group and NLB had a large share of unencumbered assets. On the NLB Group level, the amount of encumbered assets equalled EUR 119.1 million, relating to the deposit guarantee scheme and to secure funding received from international financial organisations.

e) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

in EUR thousands

	NLB Group					
31 Dec 2018	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities measured at fair value through profit or loss	-	103	106	3,981	-	4,190
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	26,453	5	12	325	-	26,795
- borrowings from banks and central banks	1,701	814	22,541	74,910	163,859	263,825
- due to customers	8,657,887	289,160	910,094	602,592	34,090	10,493,823
- borrowings from other customers	673	2,438	11,390	25,895	26,253	66,649
- subordinated liabilities	-	-	1,076	7,594	10,844	19,514
- other financial liabilities	87,241	4,263	8,997	386	-	100,887
Credit risk related commitments	526,366	169,129	479,819	227,540	191,136	1,593,990
Non-financial guarantees	23,879	37,234	129,124	196,226	65,065	451,528
Total	**9,324,200**	**503,146**	**1,563,159**	**1,139,449**	**491,247**	**13,021,201**
Total financial assets	**2,593,275**	**519,820**	**1,893,782**	**5,054,574**	**3,521,023**	**13,582,474**

in EUR thousands

31 Dec 2017	NLB Group					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at fair value through profit or loss	-	-	635	-	-	635
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	40,270	-	91	241	-	40,602
- borrowings from banks and central banks	1,713	1,054	24,459	84,451	172,238	283,915
- due to customers	7,731,796	410,400	1,083,863	633,462	60,026	9,919,547
- borrowings from other customers	968	3,207	9,413	42,712	24,499	80,799
- subordinated liabilities	-	470	13,331	7,951	11,511	33,263
- other financial liabilities	96,322	4,367	10,330	-	-	111,019
Credit risk related commitments	559,723	169,374	398,157	224,571	111,659	1,463,484
Non-financial guarantees	33,400	36,611	108,823	174,670	73,525	427,029
Total	**8,464,192**	**625,483**	**1,649,102**	**1,168,058**	**453,458**	**12,360,293**
Total financial assets	**2,369,713**	**623,597**	**2,198,452**	**4,662,531**	**3,158,566**	**13,012,859**

in EUR thousands

31 Dec 2018	NLB					
	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at fair value through profit or loss	-	-	-	3,981	-	3,981
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	48,904	-	-	-	-	48,904
- borrowings from banks and central banks	85	814	18,488	66,920	162,890	249,197
- due to customers	6,373,622	146,121	357,259	127,540	32,594	7,037,136
- borrowings from other customers	1	-	4,088	32	7	4,128
- other financial liabilities	58,511	3,230	471	-	-	62,212
Credit risk related commitments	465,022	145,198	299,398	162,577	111,953	1,184,148
Non-financial guarantees	16,693	28,418	97,807	170,993	31,625	345,536
Total	**6,962,838**	**323,781**	**777,511**	**532,043**	**339,069**	**8,935,242**
Total financial assets	**1,285,864**	**319,997**	**1,072,658**	**3,500,232**	**2,827,595**	**9,006,346**

in EUR thousands

	NLB					
31 Dec 2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Financial liabilities and credit-related commitments						
Financial liabilities measured at fair value through profit or loss	-	-	635	-	-	635
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,072	-	-	-	-	72,072
- borrowings from banks and central banks	85	700	18,127	73,935	171,768	264,615
- due to customers	5,798,144	256,865	570,680	137,951	53,610	6,817,250
- borrowings from other customers	-	-	2	5,716	8	5,726
- other financial liabilities	67,530	3,703	301	-	-	71,534
Credit risk related commitments	470,604	151,287	266,874	140,326	48,615	1,077,706
Non-financial guarantees	27,411	29,058	83,344	155,612	44,244	339,669
Total	**6,435,846**	**441,613**	**939,963**	**513,540**	**318,245**	**8,649,207**
Total financial assets	**1,147,586**	**385,419**	**1,445,862**	**3,269,949**	**2,656,192**	**8,905,008**

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to be aware of the fact that financial liabilities include total demand deposits, and that NLB may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank's regulations concerning calculation of the liquidity position. To ensure NLB Group's and NLB's liquidity, and based on its approach to risk, in previous years NLB Group compiled a substantial amount of high-quality liquid investments, mostly government securities and selected loans, which are accepted as adequate financial assets by the ECB.

Liabilities and credit-related commitments are included in maturity buckets based on their residual contractual maturity.

f) An analysis of the statement of financial position by residual maturity

in EUR thousands

	NLB Group					
31 Dec 2018	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	1,588,349	-	-	-	-	1,588,349
Financial assets held for trading	14,912	26,828	10,039	-	11,830	63,609
Non-trading financial assets mandatorily at fair value through profit or loss	664	350	1,793	22,827	6,755	32,389
Financial assets measured at fair value through other comprehensive income	225,528	74,604	236,704	778,004	583,239	1,898,079
Financial assets measured at amortised cost	-	-	-	-	-	-
- debt securities	16,443	80,873	123,364	589,389	618,893	1,428,962
- loans and advances to banks	97,853	10,051	10,109	662	21	118,696
- loans and advances to customers	533,437	285,692	1,331,729	3,041,040	1,932,735	7,124,633
- other financial assets	72,238	156	2,777	-	-	75,171
Derivatives - hedge accounting	417	-	-	-	-	417
Fair value changes of hedged in portfolio hedge of interest rate risk	-	-	-	294	2,223	2,517
Non-current assets and disposal group classified as held for sale	-	-	4,349	-	-	4,349
Property and equipment	-	-	-	19,290	158,114	177,404
Investment property	-	-	-	43,262	15,382	58,644
Intangible assets	-	-	-	11,801	23,167	34,968
Investments in associates, and joint ventures	-	-	-	-	37,147	37,147
Current income tax assets	294	-	583	-	-	877
Deferred income tax assets	-	-	-	22,668	179	22,847
Other assets	5,598	1,525	33,488	30,208	152	70,971
Total assets	**2,555,733**	**480,079**	**1,754,935**	**4,559,445**	**3,389,837**	**12,740,029**
Trading liabilities	12,300	-	-	-	-	12,300
Financial liabilities measured at fair value through profit or loss	-	103	106	3,981	-	4,190
Derivatives - hedge accounting	29,474	-	-	-	-	29,474
Financial liabilities measured at amortised cost	-	-	-	-	-	-
- deposits from banks and central banks	26,450	-	-	325	-	26,775
- borrowings from banks and central banks	1,670	743	21,444	71,453	163,113	258,423
- due to customers	8,656,216	286,558	900,073	587,656	33,514	10,464,017
- borrowings from other customers	604	2,249	10,731	23,692	24,568	61,844
- subordinated liabilities	-	-	133	5,000	9,917	15,050
- other financial liabilities	87,241	4,263	8,997	386	-	100,887
Provisions	2,021	462	29,885	45,268	2,498	80,134
Current income tax liabilities	1,047	337	10,768	-	-	12,152
Deferred income tax liabilities	-	-	-	2,200	299	2,499
Other liabilities	6,642	459	3,125	4,614	-	14,840
Total liabilities	**8,823,665**	**295,174**	**985,262**	**744,575**	**233,909**	**11,082,585**
Credit risk related commitments	526,367	169,129	479,819	227,540	191,135	1,593,990
Non-financial guarantees	23,879	37,234	129,124	196,226	65,065	451,528
Total liabilities and credit-related commitments	**9,373,911**	**501,537**	**1,594,205**	**1,168,341**	**490,109**	**13,128,103**

in EUR thousands

	NLB Group					
31 Dec 2017	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	1,256,481	-	-	-	-	1,256,481
Financial assets held for trading	13,025	55,060	5	2,438	1,661	72,189
Financial assets designated at fair value through profit or loss	-	102	-	-	4,901	5,003
Available-for-sale financial assets (IAS 39)	209,496	122,418	471,898	804,389	668,292	2,276,493
Derivatives - hedge accounting	1,188	-	-	-	-	1,188
Loans and advances (IAS 39)						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	176,371	28,837	304,431	468	-	510,107
- loans and advances to customers	600,801	338,179	1,226,362	2,967,158	1,779,833	6,912,333
- other financial assets	64,608	91	1,160	218	-	66,077
Held-to-maturity financial assets (IAS 39)	4,512	40,233	18,024	282,908	264,035	609,712
Fair value changes of hedged in portfolio hedge of interest rate risk	98	-	-	352	269	719
Non-current assets and disposal group classified as held for sale	-	-	11,631	-	-	11,631
Property and equipment	-	-	-	17,708	170,647	188,355
Investment property	-	-	-	45,300	6,538	51,838
Intangible assets	-	-	-	14,036	20,938	34,974
Investments in associates, and joint ventures	-	-	-	-	43,765	43,765
Current income tax assets	-	-	2,795	-	-	2,795
Deferred income tax assets	-	-	-	18,389	214	18,603
Other assets	5,862	1,128	32,988	53,221	150	93,349
Total assets	**2,332,442**	**586,048**	**2,071,190**	**4,206,585**	**3,041,480**	**12,237,745**
Trading liabilities	9,502	-	-	-	-	9,502
Financial liabilities measured at fair value through profit or loss	-	-	635	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	-	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	40,270	-	91	241	-	40,602
- borrowings from banks and central banks	1,655	1,012	23,474	82,015	171,460	279,616
- due to customers	7,729,809	406,897	1,069,764	613,155	58,753	9,878,378
- borrowings from other customers	863	2,917	8,395	39,665	22,446	74,286
- subordinated liabilities	-	167	12,213	5,000	9,970	27,350
- other financial liabilities	96,322	4,367	10,330	-	-	111,019
Liabilities of disposal group classified as held for sale	-	-	440	-	-	440
Provisions	1,104	561	36,437	49,994	543	88,639
Current income tax liabilities	1,062	564	1,268	-	-	2,894
Deferred income tax liabilities	670	-	111	198	117	1,096
Other liabilities	5,728	173	2,817	878	-	9,596
Total liabilities	**7,912,514**	**416,658**	**1,165,975**	**791,146**	**263,289**	**10,549,582**
Credit risk related commitments	559,723	169,374	398,157	224,571	111,659	1,463,484
Non-financial guarantees	33,400	36,611	108,823	174,670	73,525	427,029
Total liabilities and credit-related commitments	**8,505,637**	**622,643**	**1,672,955**	**1,190,387**	**448,473**	**12,440,095**

in EUR thousands

	NLB					
31 Dec 2018	Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Cash, cash balances at central banks, and other demand deposits at banks	795,102	-	-	-	-	795,102
Financial assets held for trading	14,914	26,828	10,039	-	11,830	63,611
Non-trading financial assets mandatorily at fair value through profit or loss	297	37	1,749	24,336	2,722	29,141
Financial assets measured at fair value through other comprehensive income	45,335	45,929	187,225	672,455	577,370	1,528,314
Financial assets measured at amortised cost						
- debt securities	14,909	76,089	101,470	463,617	618,893	1,274,978
- loans and advances to banks	26,269	17,087	32,025	10,999	23,917	110,297
- loans and advances to customers	354,219	135,063	649,426	1,957,856	1,354,913	4,451,477
- other financial assets	41,478	152	1,111	-	-	42,741
Derivatives - hedge accounting	417	-	-	-	-	417
Fair value changes of hedged in portfolio hedge of interest rate risk	-	-	-	294	2,223	2,517
Non-current assets and disposal group classified as held for sale	-	-	1,720	-	-	1,720
Property and equipment	-	-	-	13,977	72,957	86,934
Investment property	-	-	-	12,026	-	12,026
Intangible assets	-	-	-	10,851	12,540	23,391
Investments in subsidiaries, associates and joint ventures	-	-	-	30,576	324,934	355,510
Current income tax assets	-	-	-	22,234	-	22,234
Other assets	4,444	-	6,193	-	-	10,637
Total assets	**1,297,384**	**301,185**	**990,958**	**3,219,221**	**3,002,299**	**8,811,047**
Trading liabilities	12,256	-	-	-	-	12,256
Financial liabilities measured at fair value through profit or loss	-	-	-	3,981	-	3,981
Derivatives - hedge accounting	29,474	-	-	-	-	29,474
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	48,903	-	-	-	-	48,903
- borrowings from banks and central banks	85	743	17,511	63,636	162,158	244,133
- due to customers	6,373,382	145,793	356,270	125,847	32,117	7,033,409
- borrowings from other customers	1	-	4,088	32	7	4,128
- other financial liabilities	58,511	3,230	471	-	-	62,212
Provisions	640	360	19,832	36,162	-	56,994
Current income tax liabilities	230	-	10,554	-	-	10,784
Other liabilities	3,796	159	1,068	4,520	-	9,543
Total liabilities	**6,527,278**	**150,285**	**409,794**	**234,178**	**194,282**	**7,515,817**
Credit risk related commitments	465,022	145,198	299,398	162,577	111,953	1,184,148
Non-financial guarantees	16,693	28,418	97,807	170,993	31,625	345,536
Total liabilities and credit-related commitments	**7,008,993**	**323,901**	**806,999**	**567,748**	**337,860**	**9,045,501**

in EUR thousands

	NLB					
31 Dec 2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Cash, cash balances at central banks, and other demand deposits at banks	570,010	-	-	-	-	570,010
Financial assets held for trading	13,016	55,060	5	2,438	1,661	72,180
Financial assets designated at fair value through profit or loss	-	-	-	-	634	634
Available-for-sale financial assets (IAS 39)	18,190	50,856	384,130	663,277	661,309	1,777,762
Derivatives - hedge accounting	1,188	-	-	-	-	1,188
Loans and advances (IAS 39)						
- debt securities	-	-	1,896	-	80,237	82,133
- loans and advances to banks	105,585	23,902	314,626	7,257	10,952	462,322
- loans and advances to customers	404,586	199,815	638,382	1,947,576	1,397,118	4,587,477
- other financial assets	37,639	91	509	150	-	38,389
Held-to maturity financial assets (IAS 39)	4,512	40,233	18,024	282,908	264,035	609,712
Fair value changes of hedged in portfolio hedge of interest rate risk	98	-	-	352	269	719
Non-current assets and disposal group classified as held for sale	-	-	2,564	-	-	2,564
Property and equipment	-	-	-	12,453	74,598	87,051
Investment property	-	-	-	9,257	-	9,257
Intangible assets	-	-	-	13,225	10,686	23,911
Investments in subsidiaries, associates and joint ventures	-	-	-	31,532	325,345	356,877
Current income tax assets	-	-	2,196	-	-	2,196
Deferred income tax assets	-	-	-	19,758	-	19,758
Other assets	3,547	-	5,145	-	-	8,692
Total assets	**1,158,371**	**369,957**	**1,367,477**	**2,990,183**	**2,826,844**	**8,712,832**
Trading liabilities	9,398	-	-	-	-	9,398
Financial liabilities measured at fair value through profit or loss	-	-	635	-	-	635
Derivatives - hedge accounting	25,529	-	-	-	-	25,529
Financial liabilities measured at amortised cost						
- deposits from banks and central banks	72,072	-	-	-	-	72,072
- borrowings from banks and central banks	85	666	17,312	71,687	170,997	260,747
- due to customers	5,797,927	256,230	568,109	136,144	52,557	6,810,967
- borrowings from other customers	-	-	2	5,716	8	5,726
- other financial liabilities	67,530	3,703	301	-	-	71,534
Provisions	358	437	25,024	44,998	-	70,817
Other liabilities	3,072	10	221	878	-	4,181
Total liabilities	**5,975,971**	**261,046**	**611,604**	**259,423**	**223,562**	**7,331,606**
Credit risk related commitments	470,604	151,287	266,874	140,326	48,615	1,077,706
Non-financial guarantees	27,411	29,058	83,344	155,612	44,244	339,669
Total liabilities and credit-related commitments	**6,473,986**	**441,391**	**961,822**	**555,361**	**316,421**	**8,748,981**

g) Derivative cash flows

The table below illustrates cash flows from derivatives, broken down into the relevant maturity buckets based on residual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows prepared on the basis of spot rates on the reporting date.

in EUR thousands

	NLB Group					
31 Dec 2018	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(39,633)	(16,404)	(15,567)	(3,396)	-	(75,000)
- Inflow	39,670	16,422	15,589	3,399	-	75,080
- Swaps						
- Outflow	(23,400)	(21,077)	(3,754)	(60,135)	-	(108,366)
- Inflow	23,258	21,141	3,754	60,244	-	108,397
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,059)	(2,608)	(11,474)	(45,680)	(32,056)	(92,877)
- Inflow	116	1,325	6,125	24,231	35,234	67,031
Total outflow	**(64,092)**	**(40,089)**	**(30,795)**	**(109,211)**	**(32,056)**	**(276,243)**
Total inflow	**63,044**	**38,888**	**25,468**	**87,874**	**35,234**	**250,508**

in EUR thousands

	NLB Group					
31 Dec 2017	**Up to 1 Month**	**1 Month to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Total**
Foreign exchange derivatives						
- Forwards						
- Outflow	(7,112)	(14,222)	(76,426)	-	-	(97,760)
- Inflow	7,120	14,240	76,483	-	-	97,843
- Swaps						
- Outflow	(83,863)	(57,151)	-	-	-	(141,014)
- Inflow	83,904	57,233	-	-	-	141,137
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,156)	(2,160)	(8,995)	(44,240)	(36,237)	(92,788)
- Inflow	330	1,006	4,341	26,782	39,799	72,258
- Caps and floors						
- Outflow	-	-	-	(277)	-	(277)
- Inflow	-	-	-	277	-	277
Total outflow	**(92,131)**	**(73,533)**	**(85,421)**	**(44,517)**	**(36,237)**	**(331,839)**
Total inflow	**91,354**	**72,479**	**80,824**	**27,059**	**39,799**	**311,515**

in EUR thousands

31 Dec 2018	NLB Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(39,124)	(16,378)	(15,567)	(3,396)	-	(74,465)
- Inflow	39,160	16,395	15,589	3,399	-	74,543
- Swaps						
- Outflow	(23,545)	(14,020)	(3,754)	(60,135)	-	(101,454)
- Inflow	23,409	14,150	3,754	60,244	-	101,557
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,059)	(2,608)	(11,474)	(45,680)	(32,056)	(92,877)
- Inflow	116	1,325	6,125	24,231	35,234	67,031
Total outflow	**(63,728)**	**(33,006)**	**(30,795)**	**(109,211)**	**(32,056)**	**(268,796)**
Total inflow	**62,685**	**31,870**	**25,468**	**87,874**	**35,234**	**243,131**

in EUR thousands

31 Dec 2017	NLB Up to 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Foreign exchange derivatives						
- Forwards						
- Outflow	(6,718)	(14,115)	(76,345)	-	-	(97,178)
- Inflow	6,727	14,131	76,399	-	-	97,257
- Swaps						
- Outflow	(83,863)	(57,151)	-	-	-	(141,014)
- Inflow	83,904	57,233	-	-	-	141,137
Interest rate derivatives						
- Interest rate swaps and cross-currency swaps						
- Outflow	(1,156)	(2,160)	(8,995)	(44,240)	(36,237)	(92,788)
- Inflow	330	1,006	4,341	26,782	39,799	72,258
- Caps and floors						
- Outflow	-	-	-	(277)	-	(277)
- Inflow	-	-	-	277	-	277
Total outflow	**(91,737)**	**(73,426)**	**(85,340)**	**(44,517)**	**(36,237)**	**(331,257)**
Total inflow	**90,961**	**72,370**	**80,740**	**27,059**	**39,799**	**310,929**

6.4. Management of non-financial risks

a) Operational risk

When assuming operational risks, NLB Group follows the guideline that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The risk is also gradually decreasing due to the reduced complexity of operations in the NLB Group, with disinvestment process of non-core activities. The NLB Group has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks. This is particularly valid in strategic banking members.

All NLB Group banking members monitor the upper limit of tolerance to operational risk, defined as the limit amount of net loss that an individual member still allows in its operations. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, takes additional measures for the prevention or mitigation of the same or similar loss events. The critical limit of loss events is also defined, which in case of exceeding requires an assessment of the possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. In addition, the bank does not allow certain risks in its business – for them a so-called zero tolerance was defined. For monitoring some specific more important key risk indicators, that could show a possible increase of an operational risk, the Bank developed an early warning system. In order to monitor certain important risks that could indicate an increased operational risk as an early warning indicator, the Bank developed a specific methodology. Such risks are periodically monitored in different business areas, and the results are discussed at the Operational Risk Committee. The latter was named as the highest authority in the area of operational risk management. Relevant operational risk committees were also appointed at other NLB Group banks. The management board serves in this role at other subsidiaries. The main task of the aforementioned bodies is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks including their mitigation within an individual entity. All NLB Group entities, which are included in the consolidation, have adopted relevant documents that are in line with NLB standards. In banking members, these documents are in line with the development of operational risk management and regularly updated. The whole NLB Group uses uniform software support, which is also regularly upgraded.

In NLB Group, the reported incurred net loss arising from loss events in 2018 were approximately at the same level as in the previous year, and represents a relatively small part of the capital requirement for operational risk. In general, considerable attention is paid to reporting loss events, their mitigation measures and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank introduced an escalation scale for reporting loss events to the top levels of decision-making at NLB and the Supervisory Board of NLB. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose the Bank has developed the methodology of stress testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis are made based on experience and knowledge of experts from various critical areas.

The capital requirement for operational risk is calculated using the basic indicator approach at NLB Group level and using the standardised approach at the NLB level.

b) Business Continuity Management (BCM)

In NLB Group, business continuity management is carried out to protect lives, goods, and reputation. Business continuity plans are prepared to be used in the event of natural disasters, IT disasters, and undesired effects of the environment to mitigate their consequences.

The concept of the action plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the Business Continuity Management System. The basis for modernising the business continuity plans is the regular annual Business Impact Analysis (BIA). On its basis, the adequacy of the plans for office buildings and IT plans is checked. The best indicator of the adequacy of the business continuity plans is testing. In 2018, 41 tests were carried out at NLB (34 internal ones and 7 with external business partners). No major deviations were discovered.

In NLB Group, know-how and methodologies are transferred to the members (except non-core members which are in the process of liquidation). The members have adopted appropriate documents which are in line with the standards of NLB and revised in accordance with the development of business continuity management. The activity of the members is monitored throughout the year, and expert assistance is provided if necessary.

For more efficient functioning of the business continuity management system in NLB Group, training courses and visits to individual banking members are also provided. In 2018, NLB thus carried out a training course for members and alternative members of the Crisis Management Team, the Crisis Teams of office buildings, and participants of annul BIA.

Upon IT disasters/failures and "not IT" disasters (very strong wind) the Bank successfully used the IT plans, instructions for manual procedures, and Office Building Plans, and thus also ensured business operations in emergency situations.

c) Management of other types of non-financial risks – capital risk, strategic risks, reputation risk, and profitability risk

Risks not included in the calculation of capital requirements by the regulatory approach, but have or might have an important influence on the risk profile of NLB Group, are regularly assessed, monitored, and managed. In addtion they are integrated into internal capital adequacy assessment process (ICAAP). NLB Group established internal methodologies for identifying and assessing specific types of risk, referring to the Group's business model or arising from other external circumstances. If a certain risk is assessed as a materially important risk, relevant disposable preventive and mitigation measures are applied, including regular monitoring of their effectiveness. On this basis internal capital requirements, as a part of ICAAP process, are also considered.

6.5. Fair value hierarchy of financial and non-financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NLB Group uses various valuation techniques to determine fair value. IFRS 13 specifies a fair value hierarchy with respect to the inputs and assumptions used to measure financial and non-financial assets and liabilities at fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the assumptions of NLB Group. This hierarchy gives the highest priority to observable market data when available, and the lowest priority to unobservable market data. NLB Group considers relevant and observable market prices in its valuations, where possible. The fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices (unadjusted) on active markets. This level includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 – A valuation technique where inputs are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices). Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. The sources of input parameters for financial instruments, such as yield curves, credit spreads, foreign exchange rates, and the volatility of interest rates and foreign exchange rates, are Reuters and Bloomberg.
- Level 3 – A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. This level includes non-tradable shares and bonds, and derivatives associated with these investments and other assets and liabilities for which fair value cannot be determined with observable market inputs.

Wherever possible, fair value is determined as an observable market price in an active market for an identical asset or liability. An active market is a market in which transactions for an asset or liability are executed with sufficient frequency and volume to provide pricing information on an ongoing basis. Assets and liabilities measured at fair value in active markets are determined as the market price of a unit (e.g. share) at the measurement date, multiplied by the quantity of units owned by NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. These techniques bear a different intensity level of estimates and assumptions, depending on the availability of observable market inputs associated with the asset or liability that is the subject of the valuation. Unobservable inputs shall reflect the estimates and assumptions that other market participants would use when pricing the asset or liability.

For non-financial assets measured at fair value and not classified at Level 1, fair value is determined based on valuation reports provided by certified valuators. Valuations are prepared in accordance with the International Valuation Standards (IVS).

a) Financial and non-financial assets and liabilities measured at fair value in the financial statements

in EUR thousands

	NLB Group				NLB			
31 Dec 2018	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	48,697	14,583	329	63,609	48,697	14,585	329	63,611
Debt instruments	48,697	-	-	48,697	48,697	-	-	48,697
Derivatives	-	14,583	329	14,912	-	14,585	329	14,914
Derivatives - hedge accounting	-	417	-	417	-	417	-	417
Financial assets measured at fair value through other comprehensive income	1,638,822	255,297	3,960	1,898,079	1,475,633	52,433	248	1,528,314
Debt instruments	1,638,660	210,358	-	1,849,018	1,475,633	7,949	-	1,483,582
Equity instruments	162	44,939	3,960	49,061	-	44,484	248	44,732
Non-trading financial assets mandatorily at fair value through profit and loss	6,666	-	25,723	32,389	624	-	28,517	29,141
Debt instruments	2,009	-	-	2,009	-	-	-	-
Equity instruments	4,657	-	1,923	6,580	624	-	1,923	2,547
Loans	-	-	23,800	23,800	-	-	26,594	26,594
Financial liabilities								
Financial instruments held for trading	-	12,300	-	12,300	-	12,256	-	12,256
Derivatives	-	12,300	-	12,300	-	12,256	-	12,256
Derivatives - hedge accounting	-	29,474	-	29,474	-	29,474	-	29,474
Financial liabilities measured at fair value through profit or loss	-	-	4,190	4,190	-	-	3,981	3,981
Non-financial assets								
Investment properties	-	58,644	-	58,644	-	12,026	-	12,026
Non-current assets and disposal group classified as held for sale	-	4,349	-	4,349	-	1,720	-	1,720
Non-financial assets impaired during the year								
Recoverable amount of property, plant, and equipment	-	6,025	-	6,025	-	-	-	-
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	312	1,029	1,341

in EUR thousands

	NLB Group				NLB			
31 Dec 2017	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets								
Financial instruments held for trading	59,164	12,454	571	72,189	59,164	12,445	571	72,180
Debt instruments	59,164	-	-	59,164	59,164	-	-	59,164
Equity instruments	-	-	-	-	-	-	-	-
Derivatives	-	12,454	571	13,025	-	12,445	571	13,016
Derivatives - hedge accounting	-	1,188	-	1,188	-	1,188	-	1,188
Financial assets designated at fair value through profit or loss	5,003	-	-	5,003	634	-	-	634
Debt instruments	102	-	-	102	-	-	-	-
Equity instruments	4,901	-	-	4,901	634	-	-	634
Available-for-sale financial assets (IAS 39)	1,915,634	355,428	5,431	2,276,493	1,586,927	188,982	1,853	1,777,762
Debt instruments	1,914,963	308,346	-	2,223,309	1,586,447	144,467	-	1,730,914
Equity instruments	671	47,082	5,431	53,184	480	44,515	1,853	46,848
Financial liabilities								
Financial instruments held for trading	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives	-	9,502	-	9,502	-	9,398	-	9,398
Derivatives - hedge accounting	-	25,529	-	25,529	-	25,529	-	25,529
Financial liabilities measured at fair value through profit or loss	-	635	-	635	-	635	-	635
Non-financial assets								
Investment properties	-	51,838	-	51,838	-	9,257	-	9,257
Non-current assets and disposal group classified as held for sale	-	11,631	-	11,631	-	2,564	-	2,564
Non-financial assets impaired during the year								
Recoverable amount of property, plant, and equipment	-	6,867	-	6,867	-	436	-	436
Recoverable amount of investments in subsidiaries, associates, and joint ventures	-	-	-	-	-	332	413	745

b) Significant transfers of financial instruments between levels of valuation

NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

Fair value hierarchy	Equities	Equity stake	Funds	Debt securities	Derivatives: Equities	Derivatives: Currency	Derivatives: Interest
1	market value from exchange market		regular valuation by fund management company	market value from exchange market			
2				valuation model	valuation model (underlying in level 1)	valuation model	valuation model
3	valuation model	valuation model	valuation model	valuation model	valuation model (underlying in level 3)		
Transfers	*from level 1 to level 3*		*from level 1 to level 3*	*from level 1 to level 2*	*from level 2 to level 3*		
	equity excluded from exchange market		fund management stops publishing regular valuation	fixed income excluded from exchange market	underlying excluded from exchange market		
	from level 1 to level 3		*from level 3 to level 1*	*from level 1 to level 2*	*from level 3 to level 2*		
	companies in insolvency proceedings		fund management starts publishing regular valuation	fixed income not liquid (no trading for 6 months)	underlying included into exchange market		
	from level 3 to level 1 equity included to exchange market			from level 1 to level 3 and from level 2 to level 3			
	equity included to exchange market			companies in insolvency proceedings			
				from level 2 to level 1 and from level 3 to level 1			
				start trading with fixed income on exchange market			
				from level 3 to level 2			
				until valuation parameters are confirmed on ALCO (at least on quarterly basis)			

For 2018 and 2017, neither NLB Group nor NLB had any significant transfers of financial instruments between levels of valuation.

c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at NLB Group and NLB include:

- debt securities: bonds not quoted on active markets and valuated by a valuation model;
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets; and
- the National Resolution Fund.

When valuing bonds classified on Level 2, NLB Group primarily uses the income approach based on an estimation of future cash flows discounted to the present value.

The input parameters used in the income approach are the risk-free yield curve and the spread over the yield curve (credit, liquidity, country).

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve. Fair values for options are determined using valuation models for options (Garman and Kohlhagen model, binomial model, and Black-Scholes model).

At least three valuation methods are used for the valuation of investment property. The majority of investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium, liquidity premium, risk premium to account for the management of the investment, and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, NLB Group uses data from wider locations and appropriately adjusts such data.

d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in NLB Group and NLB include:

- equities: mainly Slovenian corporate and financial equities that are not quoted on active markets;
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted on an active organised market. Fair values for forward derivatives are determined using the discounted cash flow model. Fair values for equity options are determined using valuation models for options (Garman and Kohlhagen model, binomial model, and Black-Scholes model). Unobservable inputs include the fair values of underlying instruments determined using valuation models. The source of observable market inputs is the Reuters information system; and
- loans measured at fair value, which according to IFRS 9 do not pass SPPI test. Fair value is calculated on the basis of the discounted expected future cash flows with the required rate of return. In defining the expected cash flows for non-performing loans the value of collateral and other pay off estimates can be used.

NLB Group uses three valuation methods for the valuation of equity financial assets mentioned in first bullet: the income, market, and cost approaches.

The most commonly used valuation technique is the income approach, which is based on an estimation of future cash flows discounted to the present value. One of the key elements of the valuation is the projection of the cash flows the company is able to generate in the future. Based on that, the projection of the future cash flow is generated. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset also includes an assumption regarding the long-term EBITDA margin. A discount rate that is appropriate for the risks associated with the realisation of these benefits is used to discount cash flows. The discount rate is determined as the weighted average cost of capital. A forecast of future cash flows and a calculation of the weighted average cost of capital is prepared for an accurate forecasting period (usually 10 years from the date of the prediction value), and for a period following the period of accurate forecasting. Assumptions of long-term stable growth in the amount of 2% are used for the period following the period of accurate forecasting.

NLB Group can select values of unobservable input data within a reasonable possible range, but uses input data that other market participants would use.

Movements of financial assets and liabilities at Level 3

in EUR thousands

	Financial instruments held for trading	Available-for-sale financial assets (IAS 39)	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss			Financial liabilities measured at fair value through profit or loss
NLB Group	**Derivatives**	**Equity instruments**	**Equity instruments**	**Equity instruments**	**Loans and other financial assets**	**Total financial assets**	**Loans and other financial assets**
Balance as at 1 January 2017	405	5,903	-	-	-	6,308	-
Exchange differences	-	(271)	-	-	-	(271)	-
Valuation:							
- through profit or loss	166	(26)	-	-	-	140	-
- recognised in other comprehensive income	-	235	-	-	-	235	-
Decreases	-	(410)	-	-	-	(410)	-
Balance as at 31 December 2017	**571**	**5,431**	**-**	**-**	**-**	**6,002**	**-**
Transition to IFRS 9	-	(5,431)	3,853	1,578	24,649	24,649	5,180
Exchange differences	-	-	127	-	-	127	20
Valuation:							
- through profit or loss	(242)	-	-	345	2,749	2,852	(1,010)
- recognised in other comprehensive income	-	-	(7)	-		(7)	-
Increases	-	-	-	-	26,399	26,399	-
Decreases	-	-	(13)	-	(29,997)	(30,010)	-
Balance as at 31 December 2018	**329**	**-**	**3,960**	**1,923**	**23,800**	**30,012**	**4,190**

in EUR thousands

	Financial instruments held for trading	Available-for-sale financial assets (IAS 39)	Financial assets measured at fair value through OCI	Non-trading financial assets mandatorily at fair value through profit or loss			Financial liabilities measured at fair value through profit or loss
NLB	**Derivatives**	**Equity instruments**	**Equity instruments**	**Equity instruments**	**Loans and other financial assets**	**Total financial assets**	**Loans and other financial assets**
Balance as at 1 January 2017	405	1,810	-	-	-	2,215	-
Valuation:							
- through profit or loss	166	(26)	-	-	-	140	-
- recognised in other comprehensive income	-	241	-	-	-	241	-
Decreases	-	(172)	-	-	-	(172)	-
Balance as at 31 December 2017	**571**	**1,853**	**-**	**-**	**-**	**2,424**	**-**
Transition to IFRS 9	-	(1,853)	275	1,578	30,055	30,055	4,531
Exchange differences	-	-				-	20
Valuation:							
- through profit or loss	(242)	-	-	345	4,169	4,272	(570)
- recognised in other comprehensive income	-	-	(24)	-	-	(24)	-
Increases	-	-	-	-	26,161	26,161	-
Decreases	-	-	(3)	-	(33,791)	(33,794)	-
Balance as at 31 December 2018	**329**	**-**	**248**	**1,923**	**26,594**	**29,094**	**3,981**

NLB Group and NLB recognise the effects from the valuation of trading instruments in the income statement item, ‘Gains Less Losses from Financial Assets and Liabilities not classified at Fair Value through Profit or Loss’ and exchange differences recognised in the income statement item ‘Foreign Exchange Translation Gains Less Losses.’

In 2017, effects from the valuation of available-for-sale financial assets were recognised in the income statement item ‘Impairment of financial assets’ and in the accumulated other comprehensive income item ‘Available-for-Sale Financial Assets.’ In 2018, effects from the valuation of FV OCI were recognised in the accumulated other comprehensive income item ‘Financial assets measured at FV OCI’.

In 2018, NLB Group and NLB recognised the following unrealised gains or losses for financial instruments that were at Level 3 as at 31 December 2018:

in EUR thousands

	NLB Group			NLB		
31 Dec 2018	**Financial assets, held for trading**	**Financial assets measured at fair value through other comprehensive income**	**Non-trading financial assets mandatorily at fair value through profit or loss**	**Financial assets, held for trading**	**Financial assets measured at fair value through other comprehensive income**	**Non-trading financial assets mandatorily at fair value through profit or loss**
Items of Income statement						
Gains/(losses) from financial assets and liabilities held for trading	(242)	-	-	(242)	-	-
Gains/(losses) from non-trading financial assets mandatorily at fair value through profit or loss	-	-	4,104	-	-	5,084
Item of Other comprehensive income						
Financial assets measured at fair value through other comprehensive income	-	**(7)**	-	-	**(24)**	-

in EUR thousands

	NLB Group		NLB	
31 Dec 2017	**Trading assets**	**Available-for-sale financial assets (IAS 39)**	**Trading assets**	**Available-for-sale financial assets (IAS 39)**
Items of Income statement				
Gains/(losses) from financial assets and liabilities held for trading	166	-	166	-
Item of Other comprehensive income				
Available-for-sale financial assets (IAS 39)	-	337	-	334

e) Fair value of financial instruments not measured at fair value in financial statements

in EUR thousands

	NLB Group				NLB			
	31 Dec 2018		31 Dec 2017		31 Dec 2018		31 Dec 2017	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost								
- debt securities	1,428,962	1,471,050	-	-	1,274,978	1,313,913	-	-
- loans and advances to banks	118,696	118,973	-	-	110,297	123,377	-	-
- loans and advances to customers	7,124,633	7,186,301	-	-	4,451,477	4,472,075	-	-
- other financial assets	75,171	75,171	-	-	42,741	42,741	-	-
Loans and advances (IAS 39)								
- debt securities	-	-	82,133	79,974	-	-	82,133	79,974
- loans and advances to banks	-	-	510,107	523,943	-	-	462,322	468,599
- loans and advances to customers	-	-	6,912,067	6,494,021	-	-	4,587,477	4,584,217
- other financial assets	-	-	66,077	66,077	-	-	38,389	38,389
Held-to-maturity investments (IAS 39)	-	-	609,712	658,029	-	-	609,712	658,029
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	26,775	26,754	40,602	40,608	48,903	48,901	72,072	72,072
- borrowings from banks and central banks	258,423	268,003	279,616	287,165	244,133	253,376	260,747	267,866
- due to customers	10,464,017	10,478,309	9,878,378	9,892,052	7,033,409	7,039,583	6,810,967	6,817,618
- borrowings from other customers	61,844	62,226	74,286	74,677	4,128	4,135	5,726	5,728
- subordinated liabilities	15,050	15,209	27,350	26,923	-	-	-	-
- other financial liabilities	100,887	100,887	111,019	111,019	62,212	62,212	71,534	71,534

Loans and advances to banks
The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

Loans and advances to customers
Loans and advances are the net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for debts with similar credit risk and residual maturities to determine their fair value.

Deposits and borrowings
The fair value of sight deposits and overnight deposits equals their carrying value. However, their actual value for NLB Group depends on the timing and amounts of cash flows, current market rates, and the credit risk of the depository institution itself. A portion of sight deposits is stable, similar to term deposits. Therefore, their economic value for NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

Held-to-maturity financial assets (IAS 39)
The fair value of held-to-maturity financial assets is based on their quoted market price, or value calculated by using a discounted cash flow method and prevailing money market interest rates.

Other financial assets and liabilities
The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousands

	NLB Group				NLB			
31 Dec 2018	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets measured at amortised cost								
- debt securities	1,392,741	78,309	-	1,471,050	1,235,604	78,309	-	1,313,913
- loans and advances to banks	-	118,973	-	118,973	-	123,377	-	123,377
- loans and advances to customers	-	7,186,301	-	7,186,301	-	4,472,075	-	4,472,075
- other financial assets	-	75,171	-	75,171	-	42,741	-	42,741
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	26,754	-	26,754	-	48,901	-	48,901
- borrowings from banks and central banks	-	268,003	-	268,003	-	253,376	-	253,376
- due to customers	-	10,478,309	-	10,478,309	-	7,039,583	-	7,039,583
- borrowings from other customers	-	62,226	-	62,226	-	4,135	-	4,135
- subordinated liabilities	-	15,209	-	15,209	-	-	-	-
- other financial liabilities	-	100,887	-	100,887	-	62,212	-	62,212

in EUR thousands

	NLB Group				NLB			
31 Dec 2017	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Loans and advances (IAS 39)								
- debt securities	-	79,974	-	79,974	-	79,974	-	79,974
- loans and advances to banks	-	523,943	-	523,943	-	468,599	-	468,599
- loans and advances to customers	-	6,494,021	-	6,494,021	-	4,584,217	-	4,584,217
- other financial assets	-	66,077	-	66,077	-	38,389	-	38,389
Held-to-maturity investments (IAS 39)	658,029	-	-	658,029	658,029	-	-	658,029
Financial liabilities measured at amortised cost								
- deposits from banks and central banks	-	40,608	-	40,608	-	72,072	-	72,072
- borrowings from banks and central banks	-	287,165	-	287,165	-	267,866	-	267,866
- due to customers	-	9,892,052	-	9,892,052	-	6,817,618	-	6,817,618
- borrowings from other customers	-	74,677	-	74,677	-	5,728	-	5,728
- subordinated liabilities	-	26,923	-	26,923	-	-	-	-
- other financial liabilities	-	111,019	-	111,019	-	71,534	-	71,534

6.6. Offsetting financial assets and financial liabilities

NLB Group has entered into foreign exchange netting arrangements with banks with which concludes the majority of foreign exchange transactions, which are settled through correspondent banking. Cash flows from all FX derivatives with those banks, that are due on the same day, are settled on a net basis, i.e. a single cash flow for each currency. The same method of settlement is applied to settlement of foreign exchange transactions with all corporates on the basis of concluded master agreements. The settlement of all interest rates derivatives is also carried out by netting of both legs of transactions. Assets and liabilities related to these netting arrangements are not presented in a net amount in the statement of financial position because netting rules apply to cash flows and not to an instrument as a whole.

In accordance with the requirements of the EMIR regulation, all derivatives (currency and interest rate) are done under the conditions of signed Master Agreements (MA), with international banks ISDA MA is in place along with CSA and for corporates domestic MA is in place, which enable daily evaluation and exchange of margining.

In accordance with the EMIR regulation, NLB Group also novated certain standardised derivative financial instruments (for the bank those are interest rate swaps, the requirement also applies to certain credit default swaps) to a central counterparty in 2013. A system of daily margins assures the mitigation and collateralisation of exposures, as well as the daily settlement of cash flows for each currency.

in EUR thousands

	NLB Group and NLB			
31 Dec 2018	Amounts not set-off on the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	15,002	2,111	1,027	11,864
Derivatives - liabilities	41,730	2,111	35,898	3,721

in EUR thousands

	NLB Group and NLB			
31 Dec 2017	Amounts not set-off on the statement of financial position			
Financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Impact of master netting agreements	Financial instruments collateral	Net amount
Derivatives - assets	13,633	4,301	875	8,457
Derivatives - liabilities	34,253	4,301	29,267	685

NLB Group and NLB have no financial assets/liabilities set off in the statement of financial position.

7. Analysis by segment for NLB Group

a) Segments

in EUR thousands

	NLB Group							
2018	Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities	Unallocated	Total
Total net income	76,663	146,429	38,829	213,979	14,515	4,849		495,263
Net income from external customers	80,264	147,981	30,779	214,934	14,510	4,801	-	493,269
Intersegment net income	(3,602)	(1,552)	8,051	(955)	4	48	-	1,994
Net interest income	42,535	79,325	31,686	150,113	9,334	(83)	-	312,910
Net interest income from external customers	46,137	81,235	23,892	151,850	9,927	(131)	-	312,910
Intersegment net interest income	(3,602)	(1,910)	7,794	(1,737)	(593)	48	-	-
Administrative expenses	(38,963)	(96,960)	(11,487)	(90,863)	(16,794)	(8,358)	-	(263,426)
Depreciation and amortisation	(3,996)	(10,350)	(1,098)	(9,098)	(1,423)	(1,260)	-	(27,224)
Reportable segment profit/(loss) before impairment and provision charge	33,703	39,119	26,244	114,018	(3,703)	(4,769)	-	204,613
Other net gains/(losses) from equity investments in subsidiaries, associates, and joint ventures	-	5,446	-	-	-	-	-	5,446
Impairment and provisions charge	26,648	(3,692)	241	(14,286)	11,938	2,428	-	23,277
Profit/(loss) before income tax	60,351	40,874	26,485	99,732	8,236	(2,341)	-	233,336
Owners of the parent	60,351	40,874	26,485	91,802	8,236	(2,341)	-	225,406
Non-controlling interests	-	-	-	7,930	-	-	-	7,930
Income tax	-	-	-	-	-	-	(21,759)	(21,759)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**203,647**
Reportable segment assets	1,975,803	2,347,174	3,634,975	4,293,207	263,690	188,033	-	12,702,882
Investments in associates, and joint ventures	-	37,147	-	-	-	-	-	37,147
Reportable segment liabilities	1,157,405	5,821,282	391,145	3,596,397	18,334	98,023	-	11,082,585
Additions to non-current assets	4,061	11,138	673	8,928	161	2,069	-	27,031

in EUR thousands

2017	NLB Group Corporate banking in Slovenia	Retail banking in Slovenia	Financial markets in Slovenia	Foreign strategic markets	Non-core markets and activities	Other activities	Unallocated	Total
Total net income	73,919	140,558	39,804	191,655	39,976	4,307	-	490,219
Net income from external customers	78,301	140,898	31,039	193,264	39,789	4,416	-	487,708
Intersegment net income	(4,383)	(340)	8,764	(1,609)	187	(109)	-	2,511
Net interest income	42,888	72,768	32,490	144,585	16,785	(201)	-	309,316
Net interest income from external customers	47,271	73,440	23,694	146,596	18,419	(103)	-	309,316
Intersegment net interest income	(4,383)	(672)	8,796	(2,011)	(1,633)	(98)	-	-
Administrative expenses	(39,287)	(90,455)	(11,414)	(87,881)	(20,447)	(9,933)	-	(259,418)
Depreciation and amortisation	(4,295)	(10,310)	(999)	(9,322)	(1,280)	(1,595)	-	(27,802)
Reportable segment profit/(loss) before impairment and provision charge	30,337	39,793	27,391	94,452	18,249	(7,221)	-	202,999
Other net gains/(losses) from equity investments in subsidiaries, associates, and joint ventures	-	4,782	-	-	-	-		4,782
Impairment and provisions charge	22,475	(2,923)	(55)	7,552	12,930	(10,449)	-	29,530
Profit/(loss) before income tax	52,811	41,652	27,336	102,004	31,179	(17,670)	-	237,311
Owners of the parent	52,811	41,652	27,336	93,759	31,179	(17,670)	-	229,066
Non-controlling interests	-	-	-	8,245	-	-	-	8,245
Income tax	-	-	-	-	-	-	(3,997)	(3,997)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**225,069**
Reportable segment assets	2,055,734	2,204,045	3,508,467	3,851,214	391,308	183,212	-	12,193,980
Investments in associates, and joint ventures	-	43,765	-	-	-	-	-	43,765
Reportable segment liabilities	1,122,742	5,542,818	501,609	3,264,781	19,287	98,346	-	10,549,582
Additions to non-current assets	5,357	12,768	778	8,722	1,357	1,627	-	30,609

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of NLB Group's results.

NLB Group's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

Other NLB Group members are, based on their business activity, included in only one segment. The business activities of NLB are divided into several segments. Interest income is reallocated between segments on the basis of fund transfer rates (FTP).

Description of NLB Group's segments:

- Retail banking in Slovenia represents banking with individuals in NLB and assets management – NLB Skladi. It also includes the contribution to the financial result of the joint venture NLB Vita and the associates Skupna pokojninska družba and Bankart;
- Corporate banking in Slovenia, which includes: operations with large (key), medium-sized (mid-market), micro and small businesses, and Intensive Care and Non-performing loans;
- Financial markets in Slovenia, which include treasury activities, asset liability management, trading in financial instruments, brokerage, and custody of securities, as well as financial advisory;
- Foreign strategic markets represent all business activities of NLB Group members in strategic markets of NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), except leasing entities;
- Non-core markets and activities represent total activities of NLB Group members in non-strategic markets of NLB Group (Croatia, Germany, Switzerland, and Czech Republic) and all leasing entities. It also includes the operating result of non-financial entities (NLB Propria d.o.o., Ljubljana – v likvidaciji, Prospera plus d.o.o. Ljubljana – v likvidaciji) and the non-core part of the portfolio of NLB; and
- Other activities represent items of NLB income statement not related to reportable segments.

NLB Group is primarily a financial group, and net interest income represents the majority of its net revenues. NLB Group's main indicator of a segment's efficiency is net profit before tax.

There was no income from transactions with a single external customer that amounted to 10% or more of NLB Group's income.

b) Geographical information

Geographical analysis includes a breakdown of items with respect to the country in which individual NLB Group entities are located.

in EUR thousands

NLB Group	Revenues 2018	Revenues 2017	Net income 2018	Net income 2017	Profit/(loss) before income tax 2018	Profit/(loss) before income tax 2017	Income tax 2018	Income tax 2017
Slovenia	327,594	328,111	284,157	289,892	136,206	121,015	(12,823)	5,008
South East Europe	249,344	243,213	208,551	195,934	96,166	112,403	(8,930)	(8,999)
Macedonia	82,710	86,397	69,410	66,214	36,332	46,261	(3,879)	(4,756)
Serbia	29,307	25,401	24,323	23,784	4,368	5,180	(219)	(59)
Montenegro	30,114	28,629	24,855	21,900	9,729	4,766	406	386
Croatia	-	137	1,115	337	1,148	(1,208)	(143)	-
Bosnia and Herzegovina	68,751	67,908	56,476	54,578	27,832	41,796	(3,118)	(3,103)
Kosovo	38,462	34,741	32,372	29,121	16,757	15,608	(1,977)	(1,467)
Western Europe	596	494	561	(159)	994	2,018	(6)	(6)
Germany	8	8	(122)	96	779	3,915	-	-
Switzerland	588	486	683	(255)	215	(1,897)	(6)	(6)
Czech Republic	-	2	-	2,041	(30)	1,875	-	-
Total	**577,534**	**571,820**	**493,269**	**487,708**	**233,336**	**237,311**	**(21,759)**	**(3,997)**

The column 'Revenues' includes interest and similar income, dividend income, and fee and commission income.

The column 'Net Income' includes net interest income, dividend income, net fee and commission income, the net effect of financial instruments, foreign exchange translation, effect on derecognition of assets, and net operating income.

in EUR thousands

NLB Group	Non-current assets 31 Dec 2018	Non-current assets 31 Dec 2017	Total assets 31 Dec 2018	Total assets 31 Dec 2017	Number of employees 31 Dec 2018	Number of employees 31 Dec 2017
Slovenia	179,526	189,928	8,373,933	8,293,381	2,786	2,922
South East Europe	128,416	128,768	4,346,277	3,913,015	3,096	3,102
Macedonia	31,537	32,320	1,341,154	1,235,163	893	901
Serbia	24,086	24,394	511,119	406,959	471	447
Montenegro	28,811	29,686	518,083	466,155	308	319
Croatia	2,827	1,923	23,945	29,312	9	12
Bosnia and Herzegovina	28,240	26,876	1,282,643	1,190,435	939	942
Kosovo	12,915	13,569	669,333	584,991	476	481
Western Europe	221	236	19,641	31,140	5	5
Germany	209	218	1,335	1,876	1	1
Switzerland	12	18	18,306	29,264	4	4
Czech Republic	-	-	178	209	-	-
Total	**308,163**	**318,932**	**12,740,029**	**12,237,745**	**5,887**	**6,029**

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousands

	Revenues		Net income		Profit/(loss) before income tax		Income tax	
	2018	2017	2018	2017	2018	2017	2018	2017
Slovenia	388,060	398,851	341,840	353,327	186,366	191,115	(13,201)	3,167
South East Europe	249,748	243,566	212,235	179,911	100,806	98,698	(8,815)	(8,005)
Macedonia	82,692	86,447	73,592	65,520	41,283	46,079	(3,879)	(4,756)
Serbia	29,520	25,570	25,005	23,523	3,844	5,076	(104)	935
Montenegro	30,264	28,680	24,561	7,633	9,729	(8,693)	406	386
Croatia	30	192	786	(50)	1,309	(1,205)	(143)	-
Bosnia and Herzegovina	68,780	67,936	55,885	54,203	27,828	41,777	(3,118)	(3,103)
Kosovo	38,462	34,741	32,406	29,082	16,813	15,664	(1,977)	(1,467)
Western Europe	634	650	202	(569)	996	2,151	(6)	(6)
Germany	4	9	(126)	87	780	3,916	-	-
Switzerland	630	641	328	(656)	216	(1,765)	(6)	(6)
Czech Republic	-	1	-	294	(30)	189	-	-
Total	**638,442**	**643,068**	**554,277**	**532,963**	**288,138**	**292,153**	**(22,022)**	**(4,844)**

8. Related-party transactions

A related party is a person or entity that is related to NLB Group in such a manner that it has control or joint control, has a significant influence, or is a member of the key management personnel of the reporting entity. Related parties of NLB Group and NLB include: key management personnel (Management Board, other key management personnel and their family members); the Supervisory Board; companies in which members of the Management Board, key management personnel, or their family members have control, joint control, or a significant influence; major shareholder of NLB with significant influence, subsidiaries, associates, and joint ventures.

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

Related-party transactions with Management Board and other key management personnel, their family members and companies these related parties have control, joint control, or significant influence

in EUR thousands

	Management Board and other Key management personnel		Family members of the Management Board and other key management personnel		Companies in which members of the Management Board, key management personnel or their family members have control, joint control or a significant influence		Supervisory Board	
NLB Group and NLB	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Loans issued								
Balance as at 1 January	2,021	2,110	413	492	242	371	435	-
Increase	946	1,180	221	245	441	385	53	500
Decrease	(1,064)	(1,269)	(287)	(324)	(452)	(514)	(75)	(65)
Balance as at 31 December	**1,903**	**2,021**	**347**	**413**	**231**	**242**	**413**	**435**
Interest income	34	36	8	8	4	7	10	10
Deposits received								
Balance as at 1 January	1,981	2,079	769	697	593	480	240	130
Increase	1,868	2,653	656	692	648	504	769	660
Decrease	(2,117)	(2,751)	(978)	(620)	(1,139)	(391)	(668)	(550)
Balance as at 31 December	**1,732**	**1,981**	**447**	**769**	**102**	**593**	**341**	**240**
Interest expense	(4)	(9)	(1)	(3)	-	-	-	-
Other financial liabilities	**2,552**	**2,408**	**-**	**-**	**6**	**7**	**-**	**-**
Guarantees issued and credit commitments	**221**	**224**	**83**	**76**	**59**	**116**	**26**	**31**
Fee income	9	11	6	4	10	10	2	2
Other income	5	-	-	-	-	-	-	-
Other expenses	(3)	(5)	(1)	-	(58)	(77)	-	-

Key management compensation

The performance of key management is defined by financial and non-financial criteria. They are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria, which encompass the goals of NLB Group or NLB, the goals of the organisational unit, and the personal goals of the employee performing special work.

Members of the Management Board are entitled to a contractual gross salary considering the limitations of the Slovenian and European legislation.

Simultaneously, under the contract, members of the Management Board are entitled to a performance bonus based on criteria set by the Supervisory Board. Each year, the Supervisory Board determines the criteria of remuneration upon the adoption of the Bank's annual business plan.
The Supervisory Board determines the performance bonuses with the conclusion

of each business year. In accordance with the legislation, the annual performance bonus cannot in any case exceed 30 percent of gross salaries in a business year of members of the Management Board. In addition, members of the Management Board are entitled to performance bonuses only proportionally, depending on their actual employment in the Bank for the period for which the performance bonus relates. The first 50 percent of the performance bonus is due for payment within 15 days of the General Meeting of Shareholders that voted on use of the previous year's profit and the discharge of the Management Board. Payment of the remaining 50 percent of the performance bonus is deferred.

Upon the conclusion of the General Meeting of Shareholders, members of the Supervisory Board receive payment for their performance and attendance, while the previously mentioned amounts are limited to a decision of the General Meeting of Shareholders, and are in full compliance with the applicable recommendations of corporate governance.

in EUR thousands

	Management Board		Other key management personnel		Supervisory Board	
NLB Group and NLB	2018	2017	2018	2017	2018	2017
Short-term benefits	661	633	4,734	4,686	251	237
Cost refunds	5	5	88	105	57	50
Long-term bonuses:						
- severance pay	-	-	4	25	-	-
- other benefits	6	6	73	73	-	-
- variable part of payments	143	63	1,352	673	-	-
Total	**815**	**707**	**6,251**	**5,562**	**308**	**287**

Short-term benefits include:

- monetary benefits (gross salaries, supplementary insurance, holiday allowances, other bonuses); and
- non-monetary benefits (company cars, health care, apartments, etc.).

The reimbursement of cost comprises food allowances and travel expenses.

Payments to individual members of the Management Board

in EUR

Member		2018	2017
Blaž Brodnjak 01.12.2012	Short-term benefits:		
	- gross salary and holiday allowance	146,805	140,565
	- benefits and other short-term bonuses	1,988	2,349
	Costs refunds	1,126	1,193
	Long-term bonuses:		
	- other benefits	1,409	1,409
	- variable part of payments	40,773	20,447
	Total	**192,101**	**165,963**
Andreas Burkhardt 18.09.2013	Short-term benefits:		
	- gross salary and holiday allowance	146,805	140,565
	- benefits and other short-term bonuses	20,080	20,372
	Costs refunds	1,163	1,077
	Long-term bonuses:		
	- other benefits	1,409	1,409
	- variable part of payments	40,773	20,447
	Total	**210,230**	**183,870**
Archibald Kremser 31.07.2013	Short-term benefits:		
	- gross salary and holiday allowance	146,805	140,565
	- benefits and other short-term bonuses	19,556	18,753
	Costs refunds	1,052	1,132
	Long-term bonuses:		
	- other benefits	1,409	1,409
	- variable part of payments	40,773	20,447
	Total	**209,595**	**182,306**
László Pelle 26.10.2016	Short-term benefits:		
	- gross salary and holiday allowance	146,805	140,565
	- benefits and other short-term bonuses	32,283	29,379
	Costs refunds	1,206	1,224
	Long-term bonuses:		
	- other benefits	1,409	1,409
	- variable part of payments	20,886	2,036
	Total	**202,589**	**174,613**

Payments to individual members of the Supervisory Board

in EUR

Member		2018	2017
Andreas Klingen 22.06.2015	Session fees	4,565	5,335
	Annual compensation	27,750	28,858
	Costs refunds	11,702	10,356
Primož Karpe 11.02.2016	Session fees	5,445	6,270
	Annual compensation	37,500	37,661
	Costs refunds	9,858	5,796
Laszlo Zoltan Urban 11.02.2016	Session fees	4,345	5,610
	Annual compensation	22,500	21,149
	Costs refunds	6,931	6,276
Alexander Bayr 04.08.2016	Session fees	5,005	5,830
	Annual compensation	22,500	21,490
	Costs refunds	10,936	10,206
David Eric Simon 04.08.2016	Session fees	5,225	6,490
	Annual compensation	26,250	27,092
	Costs refunds	16,206	16,916
Peter Groznik 08.09.2017	Session fees	4,565	1,375
	Annual compensation	22,500	6,483
	Costs refunds	1,487	90
Simona Kozjek 08.09.2017	Session fees	4,345	1,155
	Annual compensation	22,500	6,483
	Costs refunds	-	-
Vida Šeme Hočevar 08.09.2017	Session fees	5,665	1,595
	Annual compensation	30,000	8,257
	Costs refunds	266	151
David Kastelic 4.8.2016 - 8.9.2017	Session fees	-	4,015
	Annual compensation	-	15,500
	Costs refunds	-	-
Matjaž Titan 4.8.2016 - 21.4.2017	Session fees	-	2,805
	Annual compensation	-	6,937
	Costs refunds	-	44
Uroš Ivanc 12.6.2013 - 7.4.2017	Session fees	-	2,310
	Annual compensation	-	7,073
	Costs refunds	-	44
Sergeja Slapničar 12.6.2013 - 20.3.2017	Session fees	-	1,430
	Annual compensation	-	6,117
	Costs refunds	-	345

Related-party transactions with subsidiaries, associates, and joint ventures

in EUR thousands

	NLB Group			
	Associates		Joint ventures	
	2018	2017	2018	2017
Loans issued				
Balance as at 1 January	1,296	1,418	4,333	19,857
Increase	120	134	58	210
Decrease	(240)	(256)	(1,410)	(15,734)
Balance as at 31 December	**1,176**	**1,296**	**2,981**	**4,333**
Interest income	38	42	40	59
Impairment	20	22	99	1,767
Deposits received				
Balance as at 1 January	4,958	5,838	6,856	5,198
Exchange difference on opening balance	-	-	5	31
Increase	14,750	3,030	90,948	139,077
Decrease	(18,986)	(3,910)	(93,385)	(137,450)
Balance as at 31 December	**722**	**4,958**	**4,424**	**6,856**
Interest expense	-	-	(34)	(19)
Other financial assets	**22**	**27**	**347**	**347**
Impairment	-	-	-	(1)
Other financial liabilities	**1,131**	**1,109**	**231**	**103**
Interest expense	-	-	-	(43)
Guarantees issued and credit commitments	**35**	**38**	**26**	**29**
Fee income	107	140	4,325	4,155
Fee expense	(12,496)	(11,547)	(2,020)	(1,894)
Other income	196	224	132	132
Other expense	(853)	(1,004)	(26)	(13)
Gains less losses on derecognition of financial assets/liabilities held for trading	(1)	-	-	-

in EUR thousands

	NLB					
	Subsidiaries		Associates		Joint ventures	
	2018	2017	2018	2017	2018	2017
Loans issued						
Balance as at 1 January	278,064	320,724	1,296	1,418	4,272	19,822
Increase	63,853	250,537	120	134	53	140
Decrease	(154,173)	(293,197)	(240)	(256)	(1,385)	(15,690)
Balance as at 31 December	**187,744**	**278,064**	**1,176**	**1,296**	**2,940**	**4,272**
Interest income	4,453	6,369	38	42	38	57
Impairment	798	17,697	20	22	99	1,767
Deposits						
Balance as at 1 January	36,470	28,431	-	-	-	-
Increase	358,462	451,462	-	-	-	-
Decrease	(338,148)	(443,423)	-	-	-	-
Balance as at 31 December	**56,784**	**36,470**	**-**	**-**	**-**	**-**
Interest income	27	30	-	-	-	-
Deposits received						
Balance as at 1 January	56,129	54,556	4,958	5,838	4,855	4,443
Increase	14,565,179	12,988,335	14,750	3,030	80,802	75,571
Decrease	(14,580,995)	(12,986,762)	(18,986)	(3,910)	(83,069)	(75,159)
Balance as at 31 December	**40,313**	**56,129**	**722**	**4,958**	**2,588**	**4,855**
Interest expense	(207)	(88)	-	-	-	(3)
Other financial assets	**745**	**730**	**22**	**27**	**347**	**347**
Impairment	-	-	-	-	-	(1)
Other financial liabilities	**86**	**61**	**1,078**	**1,008**	**140**	**25**
Interest expense	-	-	-	-	-	(43)
Guarantees issued and credit commitments	**25,413**	**25,718**	**35**	**38**	**26**	**28**
Income/(expense) provisons for guaranties and commitments	(29)	(322)	-	-	-	-
Received loan commitments and financial guarantees	**4,811**	**1,000**	**-**	**-**	**-**	**-**
Fee income	5,746	5,723	107	140	4,203	4,041
Fee expense	(33)	(45)	(11,029)	(10,178)	(906)	(983)
Other income	587	525	196	224	131	132
Other expense	(799)	(1,298)	(538)	(754)	(26)	(13)
Gains less losses on derecognition of financial assets/liabilities held for trading	-	-	(1)	-	-	-

Related-party transactions with major shareholder with significant influence

The volumes of related party transactions with major shareholder are as follows:

in EUR thousands

	NLB Group		NLB	
	Shareholder*		Shareholder*	
	2018	2017	2018	2017
Loans issued				
Balance as at 1 January	127,781	178,589	123,659	173,160
Increase	16,862	5,531	16,778	5,416
Decrease	(65,487)	(56,339)	(64,063)	(54,917)
Balance as at 31 December	**79,156**	**127,781**	**76,374**	**123,659**
Interest income	2,579	4,137	2,495	4,022
Deposits received				
Balance as at 1 January	-	70,005	-	70,005
Increase	-	5	-	5
Decrease	-	(70,010)	-	(70,010)
Balance as at 31 December	**-**	**-**	**-**	**-**
Interest expense	-	(5)	-	(5)
Investments in securities				
Balance as at 1 January	901,511	934,336	826,362	869,941
Exchange difference on opening balance	-	1	-	-
Increase	543,501	768,063	451,642	692,835
Decrease	(532,384)	(803,950)	(417,190)	(739,302)
Valuation	(4,365)	3,061	(4,923)	2,888
Balance as at 31 December	**908,263**	**901,511**	**855,872**	**826,362**
Interest income	18,276	21,130	18,508	20,891
Other financial assets	**648**	**18**	**648**	**18**
Other financial liabilities	**7**	**8**	**7**	**8**
Guarantees issued and credit commitments	**1,153**	**932**	**1,153**	**932**
Fee income	657	174	657	174
Fee expense	(37)	(41)	(37)	(41)
Other income	184	58	184	58
Other expense	(203)	(106)	(203)	(106)
Gains less losses on derecognition of financial assets/liabilities not classified at FVPL	366	-	366	-
Gains less losses on derecognition of financial assets/liabilities held for trading	(334)	-	(334)	-

* In 2017 the Republic of Slovenia was the sole shareholder of NLB

NLB Group and NLB disclose all transactions with the major shareholder with significant influence. For transactions with other government-related entities, NLB Group discloses individually significant transactions.

in EUR thousands

	Amount of significant transactions concluded during the year		Number of significant transactions concluded during the year	
NLB Group and NLB	2018	2017	2018	2017
Loans	-	117,924	-	1
	Year-end balance of all significant transactions		Number of significant transactions at year-end	
	2018	2017	2018	2017
Loans	539,116	575,024	5	5
Debt securities measured at amortised cost	76,680	-	1	-
Debt securities classified as loans and advances (IAS 39)	-	82,133	-	1
Borrowings, deposits and business accounts	135,063	135,006	2	2
	Effects in income statement during the year			
	2018	2017		
Interest income from loans	1,281	4,933		
Interest income from debt securities measured at amortised cost	(81)	-		
Interest income from debt securities classified as loans and receivables (IAS 39)	-	(526)		
Interest expense from borrowings, deposits, and business accounts	(63)	(93)		

9. Events after the reporting date

In February 2019, NLB received a new decision establishing prudential requirement from ECB, which is applicable from 1 March 2019, leading to total SREP capital requirement. Detail information is disclosed in note 5.25.

Alternative Performance Indicators

Cost of risk - Credit impairments and provisions from income statement divided by Average net loans to customers.

CR 1 - NPL coverage ratio 1: the coverage of the gross NPL portfolio with loan loss allowances on the entire loan portfolio.

CR 2 - NPL coverage ratio 2: the coverage of the gross NPL portfolio with loan loss allowances on the NPL portfolio.

FVTPL - Financial assets measured mandatorily at fair value through profit or loss (FVTPL) are not classified into stages and are therefore shown separately (before deduction of fair value for credit risk; loans with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding).

IFRS 9 classification into stages for loan portfolio:

IFRS 9 requires an expected loss model, where an allowance for the expected credit losses (ECL) are formed. Loans measured at amortised costs (AC) are classified into the following stages (before deduction of loan loss allowances):

Stage 1 – A performing portfolio: no significant increase of credit risk since initial recognition, NLB Group recognises an allowance based on a 12-month period;

Stage 2 – An underperforming portfolio: a significant increase in credit risk since initial recognition, NLB Group recognises an allowance for a lifetime period;

Stage 3 – An impaired portfolio: NLB Group recognises lifetime allowances for these financial assets. Definition on default is harmonised with EBA guidelines.

A significant increase in credit risk is assumed: when a credit rating significantly deteriorates at the reporting date in comparison to the credit rating at initial recognition; when a financial asset has material delays over 30 days (days past due are also included in the credit rating assessment); if NLB Group expects to grant the client forbearance or if the client is placed on the watch list.

LTD - Net loans to non-banking sector / Deposits from non-banking sector

Net interest margin - Calculated on the basis of interest bearing assets (Net interest income divided by interest bearing assets).

NPE - NPE includes risk exposure to D and E rated clients (includes loans and advances, debt securities and off-balance exposures, which are included in report Finrep 18; before deduction of allowances for the expected credit losses).

NPE % - NPE % in accordance with EBA methodology: NPE as a percentage of all exposures to clients in Finrep18, before deduction of allowances for the expected credit losses; ratio in gross terms.

NPL - NPLs include loans to D and E rated clients, namely loans at least 90 days past due, or loans unlikely to be repaid without recourse to collateral (before deduction of loan loss allowances).

NPL % - Share of NPLs in total loans: NPLs as a percentage of total loans to clients before deduction of loan loss allowances; ratio in gross terms.

NLB Group Chart

Nova Ljubljanska banka d.d., Ljubljana

Core members

Banks

Foreign countries

Company	%
NLB Banka, Beograd	99.997% / 99.997%
NLB Banka, Sarajevo	97.35% / 97.35%
NLB Banka, Podgorica	99.83% / 99.83%
NLB Banka, Prishtina	81.21% / 81.21%
NLB Banka, Banja Luka	99.85% / 99.85%
NLB Banka, Skopje	86.97% / 86.97%

Financial institutions

Slovenia

Company	%
NLB Skladi, Ljubljana	100% / 100%
NLB Vita, Ljubljana	50% / 50%

Companies

Slovenia

Company	%
Bankart, Ljubljana	39.44% / 39.44%

Foreign countries

Company	%
NLB Srbija, Beograd	100% / 100%
NLB Crna Gora, Podgorica	100% / 100%

The chart shows voting rights shares. The Group includes entities according to the definition in the Financial Conglomerates Act (Article 2).

Subsidiary **Associate** **Joint venture**

Company Name % direct share
% indirect share at the group level

* Contractual based influence on management of the company
** 90% direct ownership Prvi Faktor, Ljubljana in liquidation, 5% NLB d.d., 5% SID banka d.d.
*** The agreement on transfer of ownership of REAM, Zagreb from NLB d.d. to S-REAM d.o.o., Ljubljana was signed on 17th of December, 2018. On 21st of January 2019 the registration of the transfer was made.
**** The company REAM, Beograd was deleted from the Trade Registry on 8th of January, 2019 due to the merger with the company SR-RE, Beograd
***** The company NLB Lizing Dooel Skopje -in Liquidation was deleted from the Trade Registry on 28 of January 2019

Non-core members

Financial institutions

Slovenia

NLB Leasing, Ljubljana in liquidation	100%	100%
– Optima Leasing, Zagreb in liquidation	100%	100%
Prvi faktor, Ljubljana in liquidation	50%	50%
– Prvi faktor, Beograd in liquidation**	90%	95%
– Prvi faktor, Sarajevo in liquidation	100%	100%
– Prvi faktor, Zagreb in liquidation	100%	100%

Foreign countries

NLB InterFinanz, Zürich in liquidation	100%	100%
– NLB InterFinanz, Beograd in liquidation	100%	100%
– NLB InterFinanz Praha, Prague in liquidation	100%	100%
NLB Lizing, Skopje in liquidation****	100%	100%
NLB Leasing, Sarajevo	100%	100%
NLB Leasing, Beograd in liquidation	100%	100%
NLB Leasing, Podgorica in liquidation	100%	100%
LHB AG, Frankfurt	100%	100%
Sophia Portfolio BV*	0%	0%

Companies

Slovenia

Prospera plus, Ljubljana in liquidation	100%	100%
PRO-REM, Ljubljana in liquidation	100%	100%
– BH-RE, Sarajevo	100%	100%
– OL Nekretnine, Zagreb in liquidation	100%	100%
S-REAM d.o.o., Ljubljana	100%	100%
ARG Nepremičnine, Horjul	75%	75%

Foreign countries

CBS Invest, Sarajevo	100%	100%
REAM, Podgorica	100%	100%
REAM, Beograd****	100%	100%
REAM, Zagreb***	100%	100%
SR-RE, Beograd***	100%	100%
Tara Hotel, Budva	12.71%	100%
SPV 2 DOO Beograd	100%	100%

Organizational Structure of NLB

- Supervisory Board
  - Internal Audit
- Management Board
  - CEO
    - Strategy and Business Development
    - Legal and Secretariat
    - Communication
    - Human Resources and Organization Development
    - Compliance and Integrity
    - Group Steering
  - CRO
    - Global Risk
    - Credit Risk - Corporate and Retail
    - Evaluation and Control
    - Restructuring
    - Workout and Legal Support
  - CFO
    - Group Real Estate Asset Management
    - Controlling
    - Financial Accounting
    - Financial Markets
    - Investment Banking and Custody
  - CMO
    - Sales Development and Management
    - Small Enterprises
    - Large Corporates
    - Mid Corporates
    - Trade Finance Services
    - Private Banking
    - NLB Contact Centre
    - Distribution Network
      - Distribution Network Back Office
      - Area Branch Osrednjeslovenska - Jug
      - Area Branch Osrednjeslovenska - Sever
      - Area Branch Domžale, Kamnik in Zasavje
      - Area Branch Savinjsko - Koroška
      - Area Branch Podravsko - Pomurska
      - Area Branch Dolenjska, Bela krajina in Posavje
      - Area Branch Primorska, Goriška in Notranjska
  - COO
    - Procurement and CREM
    - Innovation Management and Business Analysis
    - Information System Development
    - Data Management
    - IT Infrastructure
    - Payments Processing
    - Cash Processing
    - Treasury and Financial Markets Processing
    - Corporate Banking Processing
    - Retail Banking Processing

Understanding of the tasks and responsibilities of Global Risk, Compliance and Integrity and Internal Audit is taken into account in acccordance to the definitions of the (currently valid) Banking Act-ZBan.

NLB Group directory

Nova Ljubljanska banka d.d, Ljubljana
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 39 00, +386 1 477 20 00
Fax: +386 1 252 24 22
E-mail: info@nlb.si
www.nlb.si
Blaž Brodnjak, President & CEO
Archibald Kremser, Member of the Management Board
Andreas Burkhardt, Member of the Management Board
László Pelle, Member of the Management Board

Slovenian network

Osrednjeslovenska - Jug Branch
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 23 30
Fax: +386 1 252 26 45

Osrednjeslovenska - Sever Branch
Celovška 89
1000 Ljubljana, Slovenia
Tel: +386 1 476 57 02
Fax: +386 1 519 53 16

Domžale, Kamnik, and Zasavje Branch
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel: +386 1 724 55 01
Fax: +386 1 724 53 09

Savinjsko-Koroška Branch
Glavni trg 30
2380 Slovenj Gradec, Slovenia
Tel: +386 2 884 9150
Fax: +386 2 884 9245

Podravsko-Pomurska Branch
Titova cesta 2
2000 Maribor, Slovenia
Tel: +386 2 234 45 04
Fax: +386 2 234 45 34

Dolenjska, Bela krajina, and Posavje Branch
Seidlova cesta 3
8000 Novo mesto, Slovenia
Tel: +386 7 339 14 56
Fax: +386 7 339 13 84

Primorska, Goriška, and Notranjska Branch
Pristaniška 45
6000 Koper, Slovenia
Tel: +386 5 610 30 10
Fax: +386 5 627 65 08

Micro Enterprises*
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 50 01
Fax: +386 1 540 03 45

Mobile banking*
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 44 39
Fax: +386 1 252 26 45

Private Banking
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 23 66
Fax: +386 1 476 23 33

Small and Mid Corporates*

Small Enterprises I*
Trg republike 2
1000 Ljubljana, Slovenia
Tel.: +386 1 476 49 52
Fax: +386 1 476 23 26

Small Enterprises II*
Titova cesta 2
2000 Maribor, Slovenia
Tel.: +386 2 234 45 09
Fax: +386 2 234 45 55

Central region
Trg republike 2
1520 Ljubljana, Slovenia
Tel.: +386 1 476 26 11
Faks: +386 1 251 05 72

Northwest region
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel.: +386 1 724 54 75
Fax: +386 1 724 55 08

Southwest region
Pristaniška ulica 45
6000 Koper, Slovenia
Tel.: +386 5 610 30 29
Fax: +386 5 610 30 75

Podravsko-Pomurska region
Titova cesta 2
2000 Maribor, Slovenia
Tel.: +386 2 234 45 00
Fax: +386 2 234 45 53

Savinjsko-Koroška region
Kocenova 1
3000 Celje, Slovenia
Tel.: +386 3 424 01 11
Fax: +386 3 544 24 66

Innovative Entrepreneurship Centre
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 31 49
Fax: +386 1 476 23 26

* From 1 March 2019.

Large corporates

Institutional Investors
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 24 92
Fax: +386 1 252 24 61

Large Corporates
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 26 92
Fax: +386 1 425 51 90

Members of NLB Group

NLB Banka a.d., Belgrade
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 101
Fax: +381 11 22 25 194
E-mail: info@nlb.rs
www.nlb.rs
Branko Greganović, President of the Executive Board
Vlastimir Vuković, Member of the Executive Board
Dejan Janjatović, Member of the Executive Board

NLB Banka a.d., Podgorica
Bulevar Stanka Dragojevića 46
81000 Podgorica, Montenegro
Tel: +382 20 402 000
Fax: +382 20 402 038
E-mail: info@nlb.me
www.nlb.me
Martin Leberle, CEO
Marko Popovič, Executive Officer
Dino Redžepagić, Executive Officer

NLB Banka sh.a., Prishtina
Rr. Ukshin Hoti nr. 124
10000 Prishtina, Kosovo
Tel: +383 38 744 000
Fax: +381 38 610 113
E-mail: info@nlb-kos.com
http://nlbprishtina-kos.com/
Albert Lumezi, President of the Management Board
Bogdan Podlesnik, Member of the Management Board
Lavdim Koshutova, Member of the Management Board

NLB Banka a.d. Banja Luka
Milana Tepića 4
78000 Banja Luka, Republic of Srpska, Bosnia and Herzegovina
Tel: +387 51 221 610
Fax: +387 51 221 623
E-mail: helpdesk@nlbbl.com
www.nlb.ba
Radovan Bajić, President of the Management Board
Marjana Usenik, Member of the Management Board
Dragan Injac, Member of the Management Board

NLB Banka AD Skopje
Majka Tereza 1
1000 Skopje, Macedonia
Tel: +389 2 5 100 865
Fax: +389 2 3 105 681
E-mail: info@nlb.mk
www.nlb.mk
Antonio Argir, President of the Management Board
Günter Friedl, Member of the Management Board
Damir Kuder, Member of the Management Board

NLB Banka d.d., Sarajevo
Džidžikovac 1
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 33 720 300
Fax: +387 35 302 802
E-mail: info@nlb.ba
www.nlb.ba
Lidija Žigić, President of the Management Board
Denis Hasanić, Member of the Management Board
Jure Peljhan, Member of the Management Board

NLB Leasing d.o.o., Ljubljana – v likvidaciji
Šlandrova ulica 2
1000 Ljubljana, Slovenia
Tel: +386 1 586 29 10
Fax: +386 1 586 29 40
E-mail: info@nlbleasing.si
www.nlbleasing.si
Andrej Pucer, Liquidator
Anže Pogačnik, Liquidator

NLB Leasing d.o.o. Beograd – u likvidaciji
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 222 01 01
Fax: +381 11 222 01 02
E-mail: info@nlbleasing.rs
Veljko Tanić, Liquidator

NLB Leasing Podgorica d.o.o., Podgorica - u likvidaciji
Bulevar Stanka Dragojevića 44a
81000 Podgorica, Montenegro
Tel: +382 81 667 655
Fax: +382 81 667 656
E-mail: info@nlbleasing.me
Milan Marković, Liquidator

NLB Leasing d.o.o. Sarajevo
Trg solidarnosti 2a
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 33 789 345
Fax: +387 33 789 346
E-mail: info@nlbleasing.ba
Denis Silajdžić, Director
Tanja Ibišbegović, Executive Director

NLB Lizing dooel, Skopje - u likvidaciji*
Majka Tereza No. 1
1000 Skopje, Macedonia
Tel: +389 2 329 05 50
Fax: +389 2 329 05 51
E-mail: info@nlblizing.com.mk
www.nlblizing.com.mk
Ana Narašanova, Liquidator

Optima Leasing d.o.o. u likvidaciji, Zagreb
Miramarska 24
10000 Zagreb, Croatia
Tel: +385 1 61 77 225
Fax: +385 1 61 77 228
E-mail info@optima-leasing.hr
Vjekoslav Budimir, Liquidator
Vito Cigoj, Procurator

Prvi faktor d.o.o., v likvidaciji, Ljubljana
Slovenska cesta 17
1000 Ljubljana, Slovenia
Tel: +386 1 200 54 10
Fax: +386 1 200 54 30
E-mail: klemen.hauko@prvifaktor.si
E-mail: marcel.osti@prvifaktor.si
Klemen Hauko, Liquidator
Marcel Mišanović Osti, Liquidator

Prvi faktor – faktoring d.o.o., Beograd – u likvidaciji
Bulevar Mihajla Pupina 165 v
11070 Novi Beograd, Serbia
Tel: +381 11 222 54 00
Fax: +381 11 222 54 44
E-mail: zeljko.atanaskovic@prvifaktor.rs
Željko Atanasković, Liquidator

Prvi faktor d.o.o. u likvidaciji, Sarajevo
Mis Irbina 26/1
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 61 066 055
E-mail: denan.bogdanic@prvifaktor.ba
Đenan Bogdanić, Liquidator

Prvi faktor d.o.o. u likvidaciji, Zagreb
Hektorovičeva 2
10000 Zagreb, Croatia
Tel: +385 1 6165 000
Fax: +385 1 6176 629
E-mail: jure.hartman@prvifaktor.hr
E-mail: marko.ugarkovic@prvifaktor.hr
Jure Hartman, Liquidator
Marko Ugarković, Liquidator

NLB InterFinanz AG in Liquidation, Zürich
Beethovenstrasse 48
8002 Zürich, Switzerland
Tel: +41 44 283 17 17
E-mail: info@nlbinterfinanz.ch
Jean-David Barnezet Llort, Liquidator
Polona Žižmund, Liquidator

NLB InterFinanz d.o.o., Beograd – u likvidaciji
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 350
Fax: +381 11 22 25 354
Vladan Tekić, Liquidator

NLB InterFinanz Praha s.r.o., v likvidaci
Muchova 240/6, Dejvice
160 00 Prague 6, Czech Republic
CZECH DTMR Partners s.r.o., Liquidator

NLB Vita d.d., Ljubljana
Trg republike 3
1000 Ljubljana, Slovenia
Tel: +386 1 476 58 00
Fax: +386 1 476 58 18
E-mail: info@nlbvita.si
www.nlbvita.si
Irena Prelog, President of the Management Board
Tine Pust, Member of the Management Board

NLB Skladi, upravljanje premoženja, d.o.o., Ljubljana
Tivolska cesta 48
1000 Ljubljana, Slovenia
Tel: +386 1 476 52 70
Fax: +386 1 476 52 99
E-mail: info@nlbskladi.si
www.nlbskladi.si
Kruno Abramovič, President of the Management Board
Blaž Bračič, Member of the Management Board

Bankart d.o.o., Ljubljana
Celovška cesta 150
1000 Ljubljana, Slovenia
Tel: +386 1 583 42 02
Fax: +386 1 583 41 96
E-mail: info@bankart.si
www.bankart.si
Aleksander Kurtevski, Managing Director
Miran Vičič, Managing Director

LHB Aktiengesellschaft, Frankfurt am Main
Große Bockenheimer Str. 33-35
60313 Frankfurt, Germany
Tel: +49 69 21 06 816
Fax: +49 69 21 06 199
E-mail: info@lhb.de
Matjaž Jevnišek, Management Board

Prospera plus d.o.o., Ljubljana – v likvidaciji
Šmartinska cesta 132
1000 Ljubljana, Slovenia
Tel: +386 1 524 82 91
E-mail: info@prospera-plus.si
Mateja Uršič, Liquidator
Boris Anže Dugar, Liquidator

CBSinvest d.o.o., Sarajevo
Džidžikovac 1
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 61 162 618
Eldin Teskeredžić, Director

* See NLB Group Chart chapter

PRO-REM d.o.o., Ljubljana - v likvidaciji
Čopova 3
1000 Ljubljana, Slovenia
Tel: +386 1 586 29 16
E-mail: info@prorem.si
www.nlbrealestate.com
Jovica Jakovac, Liquidator
Lamija Hadžiosmanović, Liquidator

REAM d.o.o., Podgorica
Bul. Džordža Vašingtona br. 102
81000 Podgorica, Montenegro
Tel: +382 20 674 900
E-mail: gligor.bojic@nlb.me
Gligor Bojić, Director
Marko Furlan, Authorised Representative

REAM d.o.o., Beograd – Novi Beograd*
Bulevar Mihaila Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 60 34 96 923
E-mail: office@ream-srb.com
Vladimir Vasilijević, Director
Veljko Tanić, Director

REAM d.o.o., Zagreb*
Miramarska 24/6
10000 Zagreb, Croatia
Tel: +385 1 56 25 914
Tel: +385 1 56 25 918
E-mail: lamija.hadziosmanovic@ream-cro.com
E-mail: klemen.fajmut@ream-cro.com
Lamija Hadžiosmanović, Director
Klemen Fajmut, Director

OL Nekretnine d.o.o. u likvidaciji, Zagreb
Miramarska 24/6
10000 Zagreb, Croatia
Tel: +385 1 56 25 914
Fax: +385 1 56 25 918
E-mail: lamija.hadziosmanovic@ream-cro.com
E-mail: ivan.strek@ream-cro.com
Lamija Hadžiosmanović, Liquidator
Ivan Štrek, Liquidator

SR-RE d.o.o., Beograd – Novi Beograd*
Bulevar Mihaila Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 60 34 96 923
E-mail: office@ream-srb.com
Vladimir Vasilijević, Director
Veljko Tanić, Director

SPV2 d.o.o., Beograd – Novi Beograd
Bulevar Mihaila Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 60 34 96 923
E-mail: office@ream-srb.com
Vladimir Vasilijević, Director

Hotel Tara d.o.o., Budva
Bečići, Budva
Official postal address: Bulevar Džordža Vašingtona 102
81000 Podgorica, Montenegro
Tel: +382 20 675 900
E-mail: gligor.bojic@nlb.me
Gligor Bojić, Director

BH-RE d.o.o., Sarajevo
Ul. Danijela Ozme 2
71000 Sarajevo, Bosnia and Hercegovina
Tel: +387 33 720 304
Fax: +387 35 302 802
E-mail: satka.kahrimanovic@nlb.ba
Satka Kahrimanović, Director

NLB Srbija d.o.o., Belgrade
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 366
Fax: +381 11 22 25 365
E-mail: office@nlbsrbija.co.rs
www.nlbsrbija.co.rs
Vladan Tekić, Director

NLB Crna Gora d.o.o., Podgorica
Bulevar Džorža Vašingtona 102, I sprat/20
81000 Podgorica, Montenegro
Tel: +382 20 675 900
E-mail: gligor.bojic@nlb.me
Gligor Bojić, Executive Director

S-REAM d.o.o., Ljubljana
Čopova 3
1000 Ljubljana, Slovenia
Tel: +386 1 586 29 16
E-mail: info@prorem.si
www.nlbrealestate.com
Jovica Jakovac, Director
Lamija Hadžiosmanović, Director

Branches and representative offices of NLB Group members outside their country of residence

NLB InterFinanz AG in liquidation
Ljubljana Branch
Puharjeva ulica 3
1000 Ljubljana, Slovenia
E-mail: info@nlbinterfinanz.ch
Marko Čelebić, Director

* See NLB Group Chart chapter

NLB d.d., Ljubljana
Trg republike 2
1000 Ljubljana
Slovenia

T: +386 1 476 3900
F: +386 1 252 2422
E-mail: info@nlb.si
Internet: nlb.si
SWIFT: LJBASI2X
Reuter: LB LJ

IBAN SI56 0290 0000 0200 020
Account number: 02900-0000200020
VAT identification number: SI91132550

Text: NLB d.d.
Production: Gigodesign d.o.o. and Taktik d.o.o.
Photographs: Primož Korošec and NLB Group archives

Ljubljana, April 2019

NLB Group
For whatever may come.