# With cooperation
# we create opportunities

2014 Annual Report

NLB Group

# With cooperation we create opportunities

2014 Annual Report

NLB Group

# 1. Key data

## Table 1: Key financial and other data for NLB d.d. and the NLB Group

| | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | NLB d.d. | NLB Group | NLB d.d. | NLB Group | NLB d.d. | NLB Group |
| **Income statement indicators (in EUR million)** | | | | | | |
| Net interest income | 227 | 330 | 157 | 234 | 225 | 343 |
| Net non-interest income | 142 | 181 | -185 | -173 | 318 | 332 |
| Net non-interest income without one off | 142 | 181 | 102 | 115 | 138 | 152 |
| Total costs | 193 | 304 | 212 | 333 | 224 | 368 |
| Provisions and impairments | 93 | 141 | 1,226 | 1,070 | 614 | 557 |
| Profit from equity investments in associates and joint ventures (equity m.) | - | 3 | - | -26 | - | -7 |
| Result before tax | 83 | 69 | -1,467 | -1,369 | -296 | -258 |
| Result of minority shareholders | - | 3 | - | -1 | - | 1 |
| Result after tax | 82 | 62 | -1,540 | -1,442 | -305 | -274 |
| **Financial position statement indicators (in EUR million)** | | | | | | |
| Total assets | 8,886 | 11,909 | 9,507 | 12,490 | 11,487 | 14,335 |
| Loans and advances to non-banking sector (net) | 5,700 | 7,415 | 6,129 | 7,744 | 7,832 | 9,553 |
| Deposits from non-banking sector | 6,300 | 8,949 | 5,748 | 8,261 | 6,769 | 9,121 |
| Equity | 1,205 | 1,343 | 1,094 | 1,247 | 1,067 | 1,125 |
| Impairments of loans to non-banking sector | -998 | -1,638 | -1,074 | -1,764 | -1,368 | -1,906 |
| Minority interest | - | 26 | - | 24 | - | 20 |
| Total off-balance sheet items | 3,607 | 3,915 | 3,768 | 4,124 | 4,763 | 5,083 |
| **Key financial indicators** | | | | | | |
| **a) Capital** | | | | | | |
| - capital adequacy ratio | 22.7% | 17.6% | 16.6% | 15.2% | 11.8% | 10.6% |
| - tier 1 ratio | 22.7% | 17.6% | 16.6% | 14.9% | 9.9% | 8.8% |
| - CET 1 ratio | 22.7% | 17.6% | 16.6% | 14.9% | 9.9% | 8.8% |
| **b) Asset quality** | | | | | | |
| - coverage ratio of loans (impairments for loans / total loans) | 14.9% | 17.4% | 14.8% | 17.8% | 15.6% | 16.7% |
| - non-performing loans (NPL) / total loans | 21.2% | 25.5% | 20.4% | 25.6% | 26.0% | 28.2% |
| - Net non-performing loans (NPL) / total loans | 10.1% | 10.7% | 11.5% | 11.9% | 15.0% | 16.4% |
| **c) Profitability** | | | | | | |
| - interest margin* | 2.5% | 2.7% | 1.4% | 1.7% | 1.8% | 2.2% |
| - financial intermediation margin | 4.1% | 4.2% | -0.2% | 0.5% | 4.4% | 4.3% |
| - return on equity before tax (ROE b.t.) | 7.2% | 5.2% | -146.2% | -125.8% | -27.6% | -23.1% |
| - return on assets before tax (ROA b.t.) | 0.9% | 0.6% | -13.5% | -10.0% | -2.3% | -1.6% |
| - return on equity after tax (ROE a.t.) | 7.0% | 4.8% | -153.6% | -135.5% | -28.5% | -25.0% |
| - return on assets after tax (ROA a.t.) | 0.9% | 0.5% | -14.2% | -10.5% | -2.4% | -1.7% |
| **d) Business costs** | | | | | | |
| - operating costs / average total assets | 2.1% | 2.5% | 2.0% | 2.4% | 1.8% | 2.3% |
| - costs / net income (CIR) | 52.4% | 59.4% | - | - | 41.3% | 54.6% |
| - costs / net income without one off (CIR)** | 52.4% | 59.4% | 81.9% | 95.6% | 61.8% | 74.5% |
| **e) Liquidity** | | | | | | |
| - liquidity assets / short-term financial liabilities to non-banking sector | 69.7% | 67.0% | 77.6% | 72.8% | 54.8% | 55.3% |
| - liquidity assets / average total assets | 44.0% | 44.1% | 39.8% | 41.0% | 28.4% | 30.2% |
| **f) Other** | | | | | | |
| - market share in terms of total assets | 22.9% | - | 23.5% | - | 24.8% | - |
| - loans to non-banking sector / deposits from non-banking sector (LTD)*** | 80.7% | 75.9% | 95.8% | 86.2% | 115.7% | 104.7% |
| **Key indicators per share** | | | | | | |
| Shareholders | 1 | - | 1 | - | 1,989 | - |
| Shares | 20,000,000 | - | 20,000,000 | - | 12,548,930 | - |
| The corresponding value of one share (in EUR) | 10.0 | - | 10.0 | - | | - |
| Book value (in EUR) | 60.3 | 67.2 | 54.7 | 62.4 | 58.4 | 63.0 |
| Earnings per share (EPS) (in EUR) | 4.08 | 3.12 | - | - | - | - |
| **International credit ratings** | | | | | | |
| Moody's | Caa1 | - | Caa2 | - | B2 | - |
| Standard & Poor's | BB- | - | n.a. | - | n.a. | - |
| Fitch | BB- | - | BB- | - | BBB- | - |
| **Employees** | | | | | | |
| Number of employees | 3,093 | 6,448 | 3,423 | 6,912 | 3,572 | 7,207 |

* Calculated on the basis of average total assets.
** Without the effect of the Liability management exercise in 2012 and measures to stabilise the Bank's operations in 2013 (transfer of assets to the BAMC; termination of the Bank's qualified liabilities).
*** BAMC bonds, which are classified as loans, are excluded from the calculation of the indicator.

# 2. The NLB Group in 2014 at a glance

## Macroeconomic and regulatory environment

In 2014, Slovenia saw the first signs of economic recovery, which is not necessarily sustainable and permanent.

Changes in the regulations along with the financial restructuring of companies and restructuring of the banking system continued.

*You can find more about this in the chapter Macroeconomic and regulatory environmenton on page 22.*

## Risk management

The comprehensive approach to risk management in the NLB Group is based on expert criteria, the comprehensive assessment of different risk factors and prudent risk appetite. As a systemically important bank, NLB d.d. is included in the single supervisory mechanism.

*You can find more about this in the chapter Risk management on page 51.*

## Conducting business with clients

In 2014, NLB d.d. added value for its clients:
- with a new, better and more extensive range of retail products (contactless cards, purchase by instalments, quicker processing of loans);
- with the introduction of scoring models and a less than 48-hour process of handling credit applications for micro and small companies;
- by introducing the Innovative Entrepreneurship Centre;
- with an active search for, creation and exploitation of opportunities for financing companies both through lending and by issuing debt securities;
- via a maximally active, professional and leading role in the restructuring of the financial status of companies with healthy cores; and
- with good quality work concerning all other, regular banking services, with the aim to achieve client satisfaction.

*You can find more about this in the chapter Business with clients in 2014 on page 26.*

## Human resource management

The NLB Group invested in human resources:
- following many successful activities, NLB d.d. obtained a full Family-Friendly Company certificate;
- the measurement of the climate among employees at NLB d.d. showed a considerable improvement compared to 2012;
- in 2014, the Bank introduced a competencies model and developed management by objective; consequently, it was awarded first prize in the HRM Project 2014 competition; and
- good practices were also developed in the NLB Group, e.g. talent development and a system for key staff succession planning.

*Human resource management is described on page 58.*

## Successful return to the market

In 2014, the market shares in the segment of deposits of non-banking sector in the domestic, Slovenian market stabilised after several years of shrinking.

By returning to the clients, the Bank managed to increase its market share of loans to non-banking sector, which also confirms our re-orientation to financing the economy.

*See more about the bank's operations in the chapter Business with clients in 2014 on page 26.*

## Core foreign markets

In core foreign markets, the NLB Group is oriented to banking as its main activity. In line with the NLB Group strategy, the banks are focused on retail banking and the SME segment.

*You can find more about the NLB Group on page 69 in chapter Presentation of the NLB Group.*

In all markets except one, the bank members of the NLB Group record systemically significant market shares. Their reformed business models will lead to a further improvement in relative profitability.

*See more about Core foreign markets on pages 32 and 70.*

## Financial performance

The operating result of the NLB Group (before impairments and provisions) improved considerably in 2014. Before impairments, the Bank generated EUR 207.5 million, which is substantively more than in 2013:

- by actively returning to the market;
- through measures aimed at improving the net income (interest and non-interest income); and
- via a determined cost-optimisation carried out for the second year in a row.

One of the crucial prerequisites for this was support from the owner, the Republic of Slovenia, at the end of 2013.

*See more about the financial performance of the NLB Group in 2014 on page 37.*

## Funding and liquidity management

NLB d.d. returned to the international capital markets by successfully issuing a three-year unsecured bond. The demand has exceeded expectations, showing the regaining trust of international investors.

In 2014, the Bank's liquidity position improved significantly.

*You can find more about this in the chapter Funding and liquidity management on page 55.*

## Bank's transformation

Since October 2012 a transformation process has taken place at NLB d.d. with the main goal to make NLB d.d. a sustainably profitable, trustworthy and competitive bank once again.

*See more about this in the chapter Bank's transformation on page 77.*

# 3. Table of contents

## Strengthening our competitive position means strengthening collaboration between us.

After the close of business year 2014, NLB d.d. is, after five insecure years, an active market leader again, dedicated to development of new services, promoter of restructuring of the economy, and advocate of the highest ethical business standards.

Our adviser during a regular business meeting with a representative of Steklarna Hrastnik.

# Business Report

# 4. Statement by the Management Board of NLB d.d.

After five years of making a loss, following several capital increases and despite the uncertain business environment, the NLB Group finished 2014 successfully: with a profit of EUR 62.3 million and, as a consequence, an 4.8% return on the capital it has been entrusted with. This important milestone confirms the right course and successful implementation of the extensive transformation process that has not yet been completed, as it continues to primarily focus on our customers, the development of competitive services, and a reduction of non-core activities and the remaining non-performing loans. The year's particularly valuable achievements are the Bank's significantly increased market penetration, the strong positive trend in the organisational climate, and the better integrity of the organisation. The Group is becoming an increasingly solid and competitive banking group with an autonomous regional strategy.

## Macroeconomic environment in 2014

In 2014, the European Union recorded economic growth primarily due to the recovery of domestic consumption in recent years. However, the uncertainty about the future is greater than desired, and at the end of the year the situation in Europe was mixed: on one hand, there are concerns regarding the weak contribution of investments and exports to growth, the potential traps of deflation, the relatively high unemployment rates, geopolitical tensions and regarding the lack of positive signals from the key economies of Germany, France and Italy. Slightly more optimistic are the falling energy prices, greater export competitiveness due to the weaker euro, and the monetary policy of quantitative easing announced by the ECB.

In Slovenia, the economic growth achieved last year can mainly be attributed to exports (which does not make a difference compared to several years ago) and, almost equally, to infrastructural investments, largely also with the help of EU funds. In 2015 fewer of such investments are expected, and GDP growth is also expected to be lower as a result. After several years of shrinking, analysts estimate that 2014 was the year that saw a turnaround in domestic consumption, which is also expected to contribute to further growth in 2015. In the economy, deleveraging and financial restructuring continued, which among other things is testified by the high growth in the number of bankruptcies initiated in companies (the number rose by as much as 60% in 2013 and even further in 2014), while the share of NPLs in the balance sheets is going down at a slower pace as expected. Investments are still weak (in the corporate sector as well as those made by the state), resulting in low demand for new financing. After the recovery of the largest part of the banking sector in 2013, the process continued with measures imposed on medium-sized banks, leading to an aggregate loss in this industry for the second consecutive year, but on a much lower scale than in the previous year.

The Western Balkan markets in which the NLB Group operates mostly showed positive trends of GDP growth, primarily due to the net exports, while retail and state consumption and investments did not become any stronger.

## Business with clients

In the given environment, which in 2014 was better than the year before, NLB d.d. has chiefly focused on clients and mutual value creation, while pursuing the internal restructuring process. In servicing our clients, most efforts have been invested in intense and high-quality contacts – in other words, NLB d.d. has succeeded in returning fully to the market through personal contacts, events for clients, financial literacy campaigns, proactive engagement in the management of complex financial restructuring procedures, presentation of various novelties, consistent implementation of management by objective and performance measurement as well as broadening of employees' knowledge of the entire range of services offered by NLB d.d. Similar steps have been, are being and will be taken by our subsidiary banks in the core foreign markets, enabling the whole Group to generate maximum value for our clients, owner and other stakeholders.

In retail banking, the Bank provided its clients in Slovenia even more than before with the possibility of making purchases by instalments (the service recorded more than 50% growth). It was the first bank in the market to offer contactless credit cards. It started optimising and redesigning the network of branches, both with the aim to make a tailor-made range of products meeting their needs and in line with the new trends.

Management Board of NLB d.d.: Andreas Burkhardt, Janko Medja, Archibald Kremser, Blaž Brodnjak

We introduced a new service, NLB Osebno, comprehensive management of their personal finance with direct access to a specific personal advisor via e-mail, telephone or the e-banking facility NLB Klik. We launched on the market the Klikin application, which among other things enables us to log on to the e-bank NLB Klik using a single password generator as one of the safest ways of accessing such services. We offered our clients high-quality life insurance products (NLB Vita) and investments in mutual funds (NLB Skladi); in both segments we have been rewarded by our clients with the highest growth rates of transactions in the market. Our dedication to better financial knowledge and skills, a transparent range of products and services, and dialogue with our clients was further reinforced by the redesigning of our website, www.nlb.si, which was quickly recognised as the best among the banks in Slovenia.

The trust of the most discerning clients from private banking has been rising thanks to open dialogue and personal contacts between these clients and the Bank's management in several meetings and workshops that have been organised for them. Based on the above, the private banking segment has seen a growing number of clients and volume of assets under management (in 2015 the record values from 2007 were exceeded) after the third quarter of 2013.

What is worth noting in corporate banking is the Bank's new strategic orientation to develop services for small and micro enterprises. In 2014, scoring models were introduced for clients from these segment in order to allow the fast-track credit rating assessment for credit exposures totalling EUR 100,000, making it possible to react within a maximum of 48 hours, or even faster on average. Moreover, as we strongly believe in this segment, we started with the activities of the Innovative Entrepreneurship Centre where, individually or in cooperation with other organisations, we have been setting up a positive business environment with better development opportunities for small enterprises. All of the above is the result of our responsibility to invest a lot of effort aand professionalism into the well-being of induvidual customers, as well as the economy as a whole.

In 2014, NLB d.d. was by far the most active player in the market in coordinating financial restructuring cases involving companies with development potential. We have successfully completed a large number of procedures, either individually or in collaboration with other stakeholders, helping the companies to maintain their business initiative, to perform successfully, to grow and also, last but not least, to keep tens of thousands of jobs. NLB d.d. invested a lot of effort in creating various classical and advanced financing options for medium-sized and large companies, in line with high risk management standards, and has been able to increase its market share in corporate lending by 1.1 percentage points. We have been actively and constantly keeping in touch with companies through expert meetings and personal visits, with the aim to understand their needs and identify win-win business opportunities. In 2014, NLB d.d. organised the majority of new syndicated loans on the Slovenian market and also a great majority of issues of debt securities as one of the corporate financing and development opportunities. All of the above is the final outcome of our responsibility to professionally and actively invest great efforts in the best interest of our customers, and also the entire economy.

NLB d.d. has been paying special attention to international corporate trade finance services. We presented good stories from real-life situations to existing and new clients, and helped them make and carry out new transactions. NLB d.d. financial market services, including brokerage, custody, foreign currency and interest transactions, are fully trusted by our clients, as reflected by the rising number and value of transactions.

In our core foreign markets in BiH, Serbia, Macedonia, Montenegro and Kosovo, good work with clients in most banks in the Group resulted in higher revenues and cost efficiency, and as a consequence importantly contributed to the total result of the NLB Group. The performance of all banking subsidiaries is expected to further improve in the future, thus making a positive contribution to the business results and the value of the whole Group.

In its non-core operations, NLB d.d. has continued to implement the downsizing or exiting strategy – the total assets of all non-core operations decreased by 23% in 2014 compared to the end of 2013. We have established structure and processes for real-estate management in the Group.

## Financial performance in 2014

In 2014, NLB d.d. and the NLB Group reduced the volume of operations in accordance with the strategy (due to downsizing of non-core segment) by 5% at the Group level. In addition, the Group substantially improved its net interest income (+41%) and net non-interest income (+58%). With intensive cost optimisation for the second consecutive year (-9%), the Group has strongly improved its final result before impairments and provisions. After stable provisioning in 2014, the Group result after tax was positive for the first time after many years of losses, i.e. the profit amounted to EUR 62.3 million (NLB d.d.: EUR 81.5 million).

The profit of the NLB Group before impairments and provisions, totalling EUR 207.5 million, was EUR 192.0 million higher than the comparable result in 2013. This can be partly attributed to non-recurring events (also due to the more successful sale of non-core assets than in 2013), whereas the bulk of improvements resulted from successful client operations and cost optimisation. The result indicates that the Group is capable of sustainable and successful operations. The result was good and stable not only throughout the year, but also in every quarter. With the exception of the still negative result in the segment of non-core markets and activities (which was still much better than in 2013), all segments of the NLB Group (retail banking, corporate banking and financial markets in Slovenia, as well as core foreign markets) made a profit in 2014. The Group has changed its course, proving after a long period of time that it is capable of independently running a sustainably profitable business.

## Liquidity, capital adequacy and regulation

After having been absent from the international financial markets for several years, NLB d.d. presented itself again to investors with the highly successful issue of a three-year unsecured bond in July 2014. Throughout 2014 the NLB Group maintained high liquidity and finished the year with a capital adequacy ratio of 17.6%. Capital adequacy was largely affected by the regulation amendment effective as of 1.1.2014 (mainly due to the reduction of risk-weighted assets serving as the basis for the capital adequacy calculation) and, secondly, the capital the Bank was entrusted with was replenished by profitable operations this year.

In 2014, the European Central Bank (ECB) assumed control over systemically important financial institutions, including NLB d.d. Under the auspices of the ECB, the quality of the portfolios was reviewed (as at the end of 2013) and a stress test was performed in system-relevant banks in Europe. NLB d.d. passed the baseline scenario successfully with a solid capital buffer. Under the adverse scenario, however, the ECB identified a capital deficit of EUR 34 million, at the same time noting in its report that by improving its structural profitability NLB d.d. was able to close the gap already in 2014. In Slovenia, in addition to the numerous regulatory amendments imposing additional requirements and restrictions on banks, it is worth mentioning that the Bank Resolution Authority and Fund Act was adopted in December 2014, in compliance with European Directive 2014/59/EU, which could hold serious implications for banks' operations in the future.

## Change and transformation process

In 2014, NLB d.d. continued carrying out transformation projects as well as regular and development activities in all areas of the Bank. Work with people should be particularly noted. When comparing the organisational climate survey from 2014 with the one from 2012, it is evident that the organisational climate had improved, despite the fact that the Bank reduced the number of employees by nearly 20% in the same period of time, mainly by using soft measures. We were awarded a permanent Family Friendly Company certificate as well as the award for the best HR project in 2014 for high-quality implementation of management by objective in the Bank.

In the NLB Group governance area, NLB d.d. has redesigned the management and control system as part of one of the transformation projects, as well as the knowledge-sharing system with the aim to communicate best practice examples to the banks in the Group. For the third consecutive year, the NLB Group has paid maximum attention to a better culture, risk management systems and processes and, in particular, to the workout and exposure restructuring activities. Many steps were taken in 2014 in these segments and a lot of progress was made.

In IT, the Bank maintained a stable environment, keeping the extremely high system availability despite the ruthless development demands (sometimes difficult to keep up with also because of the many local and regulatory changes), facilitating smooth client operations. Last but not least, NLB d.d. made great progress in 2014 in the field of compliance and integrity. It organised a number of training courses and improved the risk management system relating to compliance, becoming one of the ambassadors of corporate integrity and signing the Declaration of Fair Business.

## Looking ahead

There is still a lot of work ahead of us in 2015. We would like to complete the most difficult transformation projects, confirming our clients' satisfaction quarter by quarter, be active in the market and generate business results. We will continue exiting from non-core activities and reducing NPLs but, most of all, we will work on developing NLB d.d. people and culture, which will serve as a basis for future success and results. From the business perspective, it will not be easy as many elements of uncertainty relentlessly persist in the economic and broader environment, and the competitive struggle is becoming tougher. However, we know that we are on the right track and believe that we will be successful once we follow the strategic guidelines and complete the projects as planned.

Finally, allow us to sincerely thank, from the bottom of our hearts, all those who have made it possible for NLB d.d. to finish this special year successfully and to look optimistically towards the future. We are grateful to every single client for their trust and feedback, which helps us improve services of NLB d.d. We would like to thank the NLB Group team in all the markets we operate in for their ambition and energy, dedication, mutual collaboration and day-to-day efforts. We are grateful to the owner, the Republic of Slovenia, and all other stakeholders and the community for retaining their trust in the largest Slovenian financial institution in the most difficult of times. Together, we will be successful in the future.

**Management Board of NLB d.d.**

**Archibald Kremser**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
Member of the
Management Board

**Janko Medja**
Chairman of the
Management Board

# 5. Report of the Supervisory Board of NLB d.d.

In accordance with the second paragraph of Article 282 of the Companies Act (ZGD-1) (Official Gazette of the RS no. 42/2006 and subseq.), the Corporate Governance Code (8.12.2009), the Corporate Governance Code for Companies with a State Capital Investment (19.12.2014) and the Decision on the diligence of members of management and supervisory boards of banks and savings banks (Official Gazette of the RS no. 62/11 and 74/2013), the Supervisory Board of NLB d.d. has compiled a written report accurately and authentically presenting the activities of the Supervisory Board during the year.

NLB d.d. Supervisory Board monitors and supervises the management and operations of the Bank. Its tasks are carried out in accordance with the provisions of laws regulating the operations of banks and companies, and also according to NLB d.d. Statute, which defines its powers. Pursuant to the Statute, the Supervisory Board has seven members who are appointed and dismissed by the Shareholders Assembly as proposed by the shareholders or the Supervisory Board.

In 2013, the following Supervisory Board members were appointed at the General Meeting of Shareholders: France Arhar, Tit A. Erker, Uroš Ivanc, Goran Katušin, Miha Košak, Gorazd Podbevšek and Sergeja Slapničar. France Arhar, Chairman of the Supervisory Board, handed in his resignation on 11.4.2014. Gorazd Podbevšek took over the function of chairman. At the 24th Shareholders Assembly of NLB d.d. held on 3.11.2014 Peter Groznik was appointed for a four-year term of office. On 13.12.2014, the mandate of Goran Katušin expired.

In accordance with the provisions of the above-mentioned legislation and recommendations of good corporate practice, the Supervisory Board gives the following reports:

### a) Bank performance in 2014

The performance of the NLB Group was stable in 2014, as shown by the solid net profit of EUR 62.3 million. Further details are available in individual sections of the Annual Report, of which this report also forms an integral part.

### b) Monitoring of the Management Board's performance

In 2014, the Supervisory Board met at 11 regular meetings and 11 correspondence meetings, having discussed the regular performance reports on NLB d.d. and the NLB Group and other current matters and important issues.

Among other things, the Supervisory Board:
- discussed and approved the 2013 Annual Report; adopted the performance report for the previous year and, in collaboration with the Management Board, drew up the Corporate Governance Statement for 2013;
- discussed the materials and confirmed the resolutions proposed for the General Meeting of Shareholders;
- regularly reviewed and discussed the quarterly performance reports of the Bank and the Group;
- adopted the strategic direction of the Group and confirmed its plan for the period 2014-2018;
- regularly monitored the course of activities for implementing the strategic direction of the Bank, giving proposals to the Management Board regarding potential measures in certain areas, including the non-core divestment programme and sale of repossessed equity stakes in companies as well as the cost reduction programme;
- discussed the findings of the asset quality review (AQR) report by the ECB;
- monitored the capital adequacy projections and activities in the capital management field;
- regularly discussed risk reports and internal audit reports; was informed about the letters from the Bank of Slovenia and external regulators as well as regularly monitored the implementation of their recommendations, discussed reports on customers in intensive care on a regular basis and in great detail, along with the proactive risk management and reports on written-off claims, debt-to-equity swaps and large lending operations;
- approved the Bank's exposure to customers in accordance with the Banking Act-1 and approved the exposures to persons in a special relationship with the Bank;
- adopted NLB d.d. Governance Policy, together with the Management Board;
- was informed of the monitoring of compliance with the commitments relating to the proceedings of the state aid to NLB d.d.;
- approved financial restructuring cases, as well as the sale and write-off of claims, when required;

Supervisory Board of NLB d.d.:
Peter Groznik, Tit A. Erker, Sergeja Slapničar, Gorazd Podbevšek, Miha Košak, Uroš Ivanc

- provided its consent for large exposures to groups of related entities;
- gave its consent for capital increases of members in the NLB Group in accordance with the provisions of the Statute;
- approved the restructuring plan of two banking subsidiaries;
- took note of materially important legal proceedings involving either NLB d.d. or a Group member; and
- took note of the resignation of the Chairman of the Supervisory Board, elected a new Chairman of the Supervisory Board and took note of the resignation of a member of the Management Board.

### c) Collaboration with the Management Board and the authorised auditor

NLB d.d. Supervisory Board monitored and supervised the Bank's management and operations. The Management Board regularly and comprehensively informed the Supervisory Board of all issues relevant to the Bank such as strategy, planning, development, risks and risk management. The collaboration between the Chairman of the Supervisory Board and the Management Board of NLB d.d. (especially with the CEO) was carried out continuously, if necessary also outside formally convened meetings.

Based on a decision adopted by NLB d.d. Shareholders Assembly, the function of the external auditor responsible for reviewing the annual financial statements for 2014 was performed by the auditing company Ernst & Young d.o.o., Ljubljana. The cooperation with the external auditor was conducted in a manner whereby its representatives regularly reported to the Audit Committee, i.e. the progress of the audit and the findings, and implementation of the external auditor's recommendations.

### d) Internal organisation of the Supervisory Board

In 2014, four Committees provided the Supervisory Board with professional support; i.e. Strategy & Development, Risk, Audit, and Remunerations & Nominations. The members of the Committees are members of the Supervisory Board.

More specifically, the internal organisation and membership of these Committees are presented in the Corporate Governance section of the Annual Report.

The Audit Committee also has an external independent expert.

### e) Composition of the Supervisory Board in terms of the independence of its members

The Supervisory Board members signed a Statement on the Independence of Supervisory Board members in accordance with the Corporate Governance Code. Every Supervisory Board member signed and submitted to the Supervisory Board a statement about the existence of various conflicts of interest annually, upon replacement or a change in circumstances. The Supervisory Board also complied with other regulations governing the management of potential conflicts of interest and the required due care.

### f) Potential conflicts of interest and resolutions

When deciding on individual issues at Supervisory Board meetings, its members followed the general rules of corporate governance concerning conflicts of interest (*ZGD-1*, ZSDH-1, corporate governance codes and banking regulations); at the meetings, they informed the Supervisory Board of the existence of a conflict of interest in a specific case and excluded themselves from the discussion and decision-making on the issue. Two Supervisory Board members declared their general exclusion from any matter concerning the companies in which they are Management Board members.

### g) Self-assessment results

According to the good practice recommendations and based on the proposed methodology of the Slovenian Directors' Association, the Supervisory Board self-assessed its work in December 2014 and prepared an action plan of improvements. NLB d.d. Supervisory Board recognised certain weak points, and will therefore pay a lot of attention in the future to the management of those issues and to improving its work.

### h) Specific contribution per member and their respective competence

The specific contribution of individual members and their competence in terms of their work and offices is formally presented in the Corporate Governance section of the Annual Report.

### i) New fit and proper assessment of the Supervisory Board members (under the first paragraph of Article 13.b of the Decision on the diligence of members of management and supervisory boards of banks and savings banks)

Fit and proper assessments of the Supervisory Board members are made in line with the Fit and Proper Assessment Policy of NLB d.d. Supervisory and Management Board Members issued on 1.2.2014 and supplemented on 1.5.2014. A fit and proper assessment was made by the Remunerations and Nomination Committee of the Supervisory Board. It was prepared and confirmed for all Supervisory Board members at the Supervisory Board meeting on 30.6.2014. The fit and proper assessment of the new Supervisory Board member was approved at the meeting on 23.12.2014.

## Verification and approval of the 2014 Annual Report

On 16.4.2015, the Management Board of NLB d.d. submitted the 2014 Annual Report to the Supervisory Board, including the Business Report, audited financial statements of NLB d.d., the consolidated financial statements of the NLB Group and the auditor's opinions. According to the auditor, the financial statements with notes give a true and fair view of the financial position of the Bank and the NLB Group as at 31.12.2014 and are in compliance with the International Financial Reporting Standards as adopted by the EU. It was also established on the basis of the review of the business report that the information contained in the business section of the Annual Report is consistent with the financial statements of the Bank and the NLB Group.

The Supervisory Board had no objections to the report of the audit company Ernst & Young, Ljubljana. Following a careful examination of the audited annual report for the 2014 financial year, the Supervisory Board had no objections to it and approved it unanimously on 20.4.2015.

## Conclusion

The Supervisory Board would like to thank to clients, all the employees, the Management Board and the shareholder, for their contribution and efforts in the financial year 2014. A special mention has to be addressed to all employees of the Bank and the NLB Group who have shown commitment and dedication in performing their tasks at an even higher level as in the past. This is clearly reflected in the measurement of the organisational climate of employees which shows that the employees’ commitment to new solutions is growing. Special thanks also go to the many Bank clients who, in these times of great global financial shocks and numerous organisational changes in the Bank, remain loyal clients of the NLB Group, continue showing their satisfaction with our services, and believe that we are on the right track towards restructuring the Bank and finding a way out of this crisis. Great challenges are awaiting the NLB Group in the future and we can take them on and successfully continue the planned turnaround in the operations with our new strategic guidelines.

Supervisory Board of NLB d.d.

Gorazd Podbevšek,
Chairman of the Supervisory Board

# 6. Macroeconomic and regulatory environment

## Global economy in 2014

In 2014, global GDP grew at a rate comparable to 2013, but what was typical of the economic environment in the developed and developing countries was the slow recovery of domestic demand, the deteriorating situation in labour markets and the sharp drop in oil prices at the end of 2014, resulting in low inflation. This particularly applies to the eurozone with deflationary pressures increasing throughout the year, leading the European Central Bank to consider launching a substantial QE programme. The yields on Euro bonds dropped significantly throughout 2014 in line with the lower inflation expectations for all of Europe. Capital markets were considerably supported by expansive monetary policies of central banks striving to promote economic activities.

## Slovenia

Slovenia was marked by the beginning of an economic recovery in 2014. Gross domestic product (GDP) increased by 2.6% in real terms, mainly thanks to the export sector and several infrastructure investments. In 2015, GDP is expected to grow albeit at a slightly lower rate than in 2014. Companies continued their process of deleveraging, resulting in a further decrease of outstanding bank loans while also contributing to a slower than desired reduction of NPLs. Many companies remain distressed, leading to the still high number of bankruptcies initiated in 2014, which rose by 38% to more than 1,300 cases. Demand for corporate loans hit bottom, although the Bank of Slovenia expects that corporate demand for loans might start growing again in 2015.

The economic recovery led to new jobs, even though companies remained cautious. According to the Employment Service of the Republic of Slovenia, the employment rate improved in the majority of the private sector and in 2015 the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia expects employment to go up in a larger number of businesses. As the situation in the labour markets starts picking up, the growth of private consumption is eventually expected to get better, and government spending is set to continue to shrink in the light of the consolidation of public finances.

Table 2: Movement of key macroeconomic indicators in Slovenia and the EMU from 2011 to 2014

| | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **Slovenia** | | | | |
| GDP (real growth in %) | 2.6 | -1.0 | -2.5 | 0.7 |
| Average annual inflation rate – HICP (in %) | 0.4 | 1.9 | 2.8 | 2.1 |
| Surveyed unemployment rate – ILO (in %) | 9.8 | 10.1 | 8.9 | 8.2 |
| Current account of the balance of payments (as % of GDP) | n.a. | 6.5 | 3.3 | 0.0 |
| Public debt (as % of GDP) | 82.2* | 70.4 | 54.4 | 46.9 |
| Budgetary deficit/surplus (as % of GDP) | -3.6* | -14.6 | -3.8 | -6.3 |
| **EMU** | | | | |
| GDP (real growth in %) | 0.9 | -0.4 | -0.7 | 1.6 |
| Average annual inflation rate – HICP (in %) | 0.4 | 1.3 | 2.5 | 2.7 |
| Surveyed unemployment rate – ILO (in %) | 11.6 | 12.0 | 11.4 | 10.1 |
| Current account of the balance of payments (as % of GDP) | n.a. | 2.7 | 1.3 | 0.1 |
| Public debt (as % of GDP) | n.a. | 90.9 | 90.6 | 87.3 |
| Budgetary deficit/surplus (as % of GDP) | n.a. | -2.9 | -3.7 | -4.2 |

* Preliminary estimates.
Sources: Eurostat, Statistical Office of the Republic of Slovenia, Institute of Macroeconomic Analysis and Development, Ministry of Finance, EC

## Figure 1: Real growth of gross domestic product in the EMU and Slovenia from 2002 to 2014


Source: Eurostat

In 2014 the restructuring of the banking system continued with more banks being subject to state aid with the transfer of NPLs to the BAMC and measures to strengthen their capital situation.

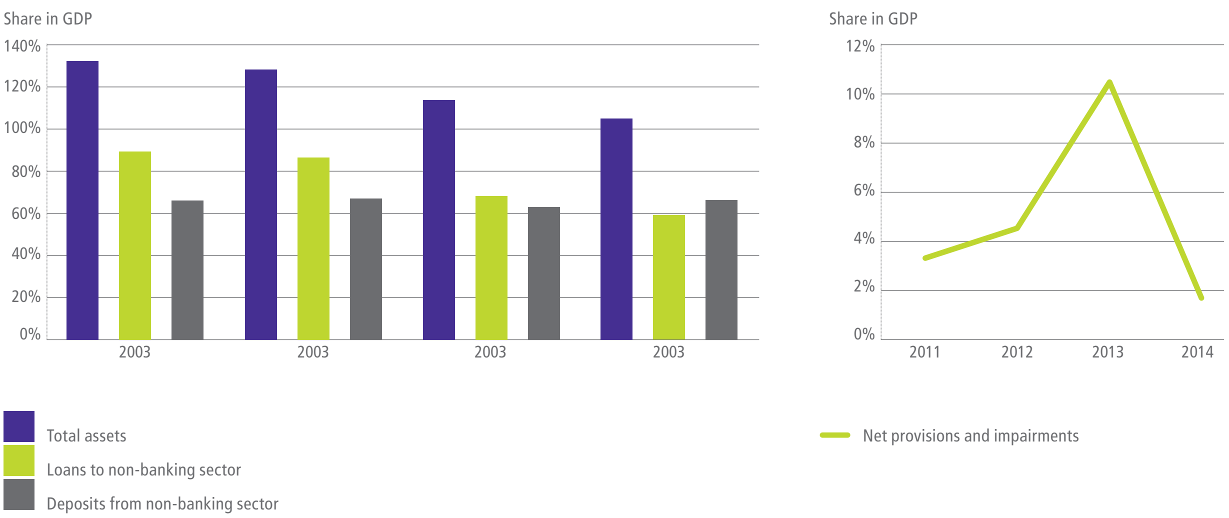
In 2014 the trend of falling total assets in Slovenian banks continued, in spite of the better economic conditions and lower macroeconomic risks. The total assets of Slovenian banks at the end of 2014 amounted to EUR 38.8 billion, which is 3.9% less than at year-end 2013. The lower total assets in banks led to a further net drop in banks' wholesale and ECB funding. Credit risk in the banks' balance sheets has stabilised after the two asset quality reviews and stress tests in 2013 and 2014. Moreover, the banks show adequate levels of provisions to cover net exposure under bad loans.

The banking system recorded a loss before taxes of EUR 67.5 million in 2014, mainly due to the restructuring and higher provisions of medium-sized banks.

According to the Bank of Slovenia, the gross income of banks in 2014 went up by 13%, whereas net interest and non-interest income increased by 17.5% and 4.6%, respectively. The higher net interest income is mainly a result of the strong fall in interest expenses (-37.5%). Interest income fell as well, by 11.5% and the interest margin increased from 1.67% to 2.18%.

Further consolidation of the Slovenian banking system is expected in the coming years with privatisation of the second largest bank in the country and the potential merger of two or more medium-sized banks.

## Figure 2: Key indicators of the Slovenian banking system




Sources: BoS, Institute of Macroeconomic Analysis and Development

## Other core markets of the NLB Group

Most countries in the strategic markets of the NLB Group outside Slovenia, such as Bosnia and Herzegovina, Serbia, Macedonia, Montenegro and Kosovo, saw positive economic growth, being a result of net exports, with final consumption and investment expenditures remaining weak. Inflation continued to fall in 2014, mainly due to the aforementioned weak domestic demand and falling energy prices in the global markets, leading to deflation in three countries (Montenegro, Bosnia, and Herzegovina and Macedonia). The unemployment rate dropped slightly in most countries, remaining at high levels.

**Bosnia and Herzegovina** recorded modest 0.7% economic growth, which is largely due to the disastrous floods (25% of the population in Bosnia and Herzegovina are said to have been affected), which caused considerable damage to some key sectors of the economy, such as agriculture and energy, reduced exports and as a consequence increased the deficit in the current account balance.

**Serbia** is the only strategic country in the NLB Group that recorded negative economic growth in 2014. It is a result of austerity measures introduced in 2014 by the new government and like in Bosnia and Herzegovina the result of the floods (22% of the population are estimated to have been affected). The current account balance went negative again due to weak foreign demand and the importing of energy after the floods.

**Macedonia** continued its recovery last year and, according to the International Monetary Fund, achieved the highest growth (+3.4%) among the core countries. The growth is largely a result of foreign trade; the unemployment rate remains at a relatively high level.

**Montenegro,** which recorded one of the highest growth rates in the region at 3.5% in 2013, saw solid growth of 2.3% in 2014. The lower growth is primarily due to a drop in imports, as domestic demand remains weak and the production base small. Due to its dependency on capital inflows and great needs for public funding, the country is exposed to fiscal and external risks, resulting in a rating downgrade by S&P from BB- to B+ in November.

**Kosovo** lost half of last year on development and reforms as the country only received a new government after the June election in December. The need for structural economic reforms to solve problems such as the record-high unemployment rate in the region is becoming ever more urgent.

### Table 3: Trends in the key macroeconomic indicators for selected countries in SE Europe

| | GDP (real growth in %) | | | Average inflation (in %) | | | Unemployment rate (in %) | | | Current account of the balance of payments (as % of GDP) | | | Budget deficit / surplus (as % of GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| BiH | 0.7 | 2.1 | -1.2 | -0.9* | -0.1 | 2.0 | 25.5 | 27.0 | 28.0 | -11.0 | -5.4 | -9.3 | -4.1 | -1.9 | -2.7 |
| Montenegro | 2.3 | 3.5 | -2.5 | -0.7* | 2.2 | 3.6 | n.a. | n.a. | n.a. | -17.8 | -14.6 | -18.7 | -1.5 | -3.2 | -5.9 |
| Macedonia | 3.4 | 2.9 | -0.4 | -0.7** | 2.8 | 3.3 | 29.0 | 30.0 | 31.3 | -4.6 | -1.9 | -3.0 | -3.5 | -4.1 | -3.9 |
| Serbia | -0.5 | 2.5 | -1.5 | 2.1* | 7.7 | 7.3 | 21.6 | 21.0 | 23.1 | -6.1 | -6.5 | -12.3 | -8.8 | -5.7 | -7.2 |
| Kosovo | 2.7 | 3.4 | 2.8 | 0.4* | 1.8 | 2.5 | n.a. | n.a. | n.a. | -7.2 | -6.4 | -7.5 | -2.2 | -3.1 | -2.6 |

* Current data from statistical offices.
** Y-o-Y comparison between December 2014 and December 2013.
Source: International Monetary Fund (IMF), World Economic Outlook, October 2014

# Regulatory environment

## European Central Bank

In 2014 the Single Supervisory Mechanism was set up, thus granting the ECB the role of the supervisor of the financial stability of banks registered in eurozone member countries. NLB d.d. as a system-relevant bank also falls under the supervision of the ECB.

Establishing the Single Supervisory Mechanism as the first pillar of the EU banking union is an important step towards the greater integration of banking supervision and restoring trust in the European banking system. Its main aims are to:
- establish a joint approach to day-to-day supervision,
- carry out concerted supervisory measures and corrective measures, and
- ensure consistent compliance with the regulation and supervision policies.

## Comprehensive Assessment and Stress Tests

The Comprehensive Assessment of the ECB and the pan-European Stress Tests was completed in October 2014. The sample consisted of 130 banks from the EU on a consolidated basis and assessed the banks' viability in case of a hypothetical baseline and adverse scenario in a period of three years (2014–2016).

In Slovenia, the Comprehensive Assessment involved NLB d.d., NKBM d.d. and SID bank. According to the baseline scenario of the stress test, none of the Slovenian banks had a capital shortfall at the end of 2016 (the capital surplus of all three banks totalled EUR 754.7 million at year-end).

NLB d.d. successfully passed the comprehensive assessment under the baseline scenario with a buffer of EUR 364 million. The baseline scenario threshold of the Adjusted CET1 Ratio is 8.0%, while the Bank's value for this ratio is 12.8%.

In the adverse scenario, the minor capital shortfall of the Comprehensive Assessment for NLB d.d. was established for the amount of EUR 34.25 million, which is 0.47% below the Adjusted CET1 Ratio threshold of 5.5%. Thanks to its improved profitability, the NLB Group provided for the coverage of the modest capital shortfall with profits of the current business year.

## Regulatory changes

At the beginning of 2014 a new European regulatory package reinforcing the regulation of the banking sector entered into force. It includes Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV).

The bank recovery and resolution directive 2014/59/EU (BRRD) on setting up the framework for the rehabilitation and recovery of credit institutions and investment firms was adopted in April. The BRRD is partly transposed into the Slovenian national legislation through the Bank Resolution Authority and Fund Act (Official Journal of RS, 97/14) of December 2014.

# 7. Business with clients in 2014

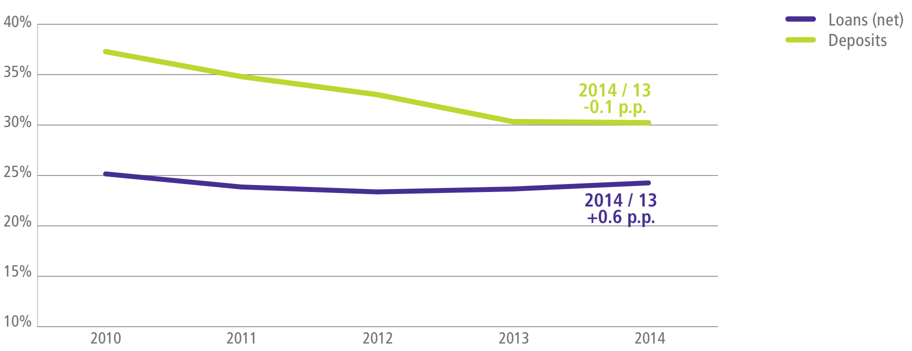
## Retail banking in Slovenia

Recently NLB d.d. has, as by far the biggest supplier of retail banking services, strongly shifted its focus back to its customers again.

In terms of the focused sales process, most attention has been paid to the thorough and consistent implementation of effective sales and management by objective of every individual, based on which more weight is put on active communication with customers. The new sales process was acknowledged as the best HRM project in 2014 and awarded 1st prize by Planet GV.

The volume of operations and the market share in retail banking in Slovenia logically define this segment as one of the Bank's key strategic development areas. It should be noted that following a negative trend a turnaround occurred in 2013 and 2014 with stabilisation of the deposit market share, whereas the Bank succeeded to increase its market share in loans, which again indisputably confirms its shift of focus back to customers and new business ambitions and capabilities.

Figure 3: Market shares of the retail banking segment in Slovenia




In 2014, the Bank actively introduced numerous changes bringing business optimisation and some important novelties for its customers.

When developing products for private individuals, the Bank has mainly upgraded the products already in use and designed a range of products for various segments to maximise customer satisfaction. Apart from demographic criteria, the Bank's client segmentation criteria for the first time include a client's economic potential, based on which various service levels have been defined to best meet the needs of an individual group of customers. Every service level with an upgraded range of products now precisely defines sales and communication targets for respective groups of customers, which enables the bank to focus more on services that are important to customers. Accordingly, a special range of products was prepared for young customers and Toli, First and Student Accounts are now automatically upgraded to various types of accounts for adults. After the NLB Premium Osebno service was launched in 2013, in 2014 NLB d.d. plugged the gap by introducing the service NLB Osebno, which among other benefits offers an overall personal finance management service and the possibility for a client to communicate directly with their personal banker via the NLB Klik e-bank, electronic mail or telephone.

Differentiation in interest rates depending on the term was introduced in home loans to increase sales. NLB d.d. reached an agreement with the Zavarovalnica Maribor insurance company to increase the total and credit limits and enable higher shares of encumbrance.

The Bank paid great attention to the development of electronic sales channels. In 2014, the mobile application KlikIn, which apart from other functionalities enables logging in to the online bank using a one-time password, simplified access to the NLB Klik online bank. The application will be upgraded in the first half of 2015 to enable access to accounts, as well as the most frequent transactions. This will considerably improve accessibility to the Bank and the user experience via the smart modern devices that are in use by more and more customers.

NLB d.d. is upgrading its NLB Klik online bank, which will in the future serve as a uniform interface for private and business needs and also be available to micro and small companies for their daily asset management, which will make electronic bank services considerably easier to use.

Significant development was made regarding support for e-invoices that provide customers with a modern electronic tool of account management, simplifying payment procedures.

NLB d.d. actively pursues the principles of the transparency and comprehensibility of its products and at the same time takes care of the financial literacy of private individuals by organising numerous finance workshops offered free of charge throughout the country. As part of this, an entirely renovated and upgraded web portal was introduced and, according to the independent agency Elaborat, it is already taking first place among Slovenian banks.

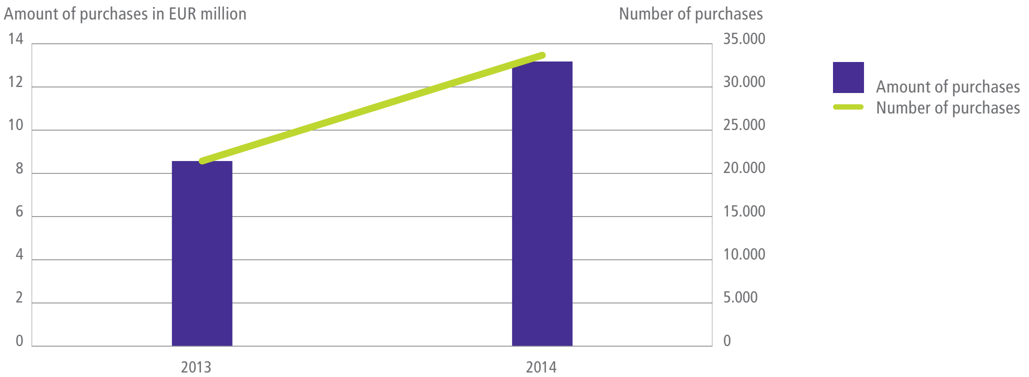
Knowing how important a quality customer experience is the Bank revamped the concept and layout of its branch offices. The new concept of the branch office promotes direct contact between the customer and bank advisers, emphasising open space and hospitality. The first two branch offices were refurbished in 2014 already and others will follow in the coming years. The renovation of the branch offices will be accompanied by intense communication with the local community and personal meetings with customers. In addition, the Bank completed one of the most demanding tasks of the year by identifying and closing down non-profitable branch offices without future potential and did a similar exercise in the area of ATMs. Thus, the Bank closed 22 branch offices and the churn rate turned out to be lower and the savings higher than expected.

New Contact Centre technology was introduced in order to intensify personal contact with customers and considerably improve transparency and reliability. Later, the Contact Centre will also become more efficient by increasing the level of communication and the number of customers contacted.

As the first bank in Slovenia to do so, NLB d.d. started a massive issue of contactless MasterCard cards in November 2014. More than 4,000 POS terminals enabling contactless payments were upgraded at points of sale by the end of 2014. In 2015, the Bank will also begin to issue BA Maestro debit contactless cards and later also pre-paid contactless MasterCard cards.

NLB d.d. customers hold approximately 1.19 million payment cards, representing a 38% market share. In 2014, NLB d.d. had the widest POS coverage rate and issued the most cards. Holders of NLB d.d. credit cards were also offered the opportunity to make purchases in instalments (from 2 to 12 instalments). The product NLB Nakupi na obroke was upgraded in 2014 so that it now also applies to online shopping. Purchases in instalments represent highly important added value for clients, the acquisition of new points of sale and an additional upgrade of business cooperation with the existing points of sale, which now total 4,000 already. In 2014, purchases by instalments increased by 57% in volume and by 54% in value compared to the previous year.

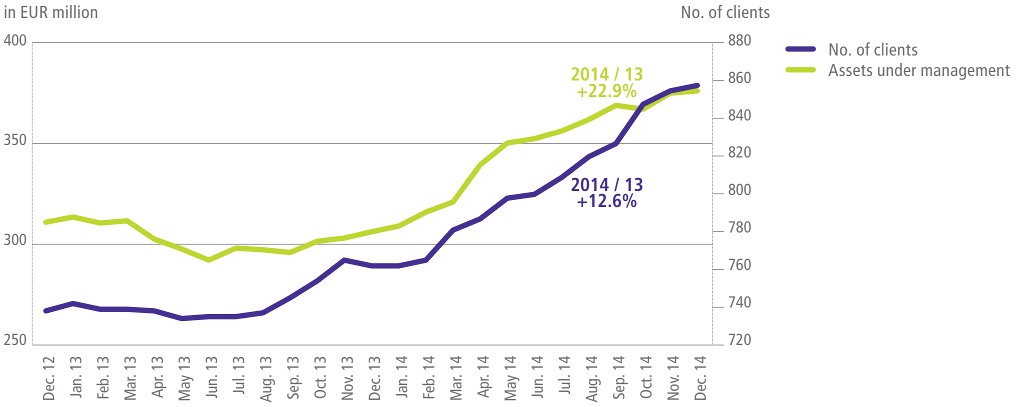
Figure 4: Number and amount of purchases in instalments in 2013 and 2014



Meetings with the management of the Bank were reintroduced and they are taking place in the banking shop Bankarna. With the aim to harmonise the understanding and sales approaches to our customers, the management of the Bank visited all 121 branches in Slovenia.

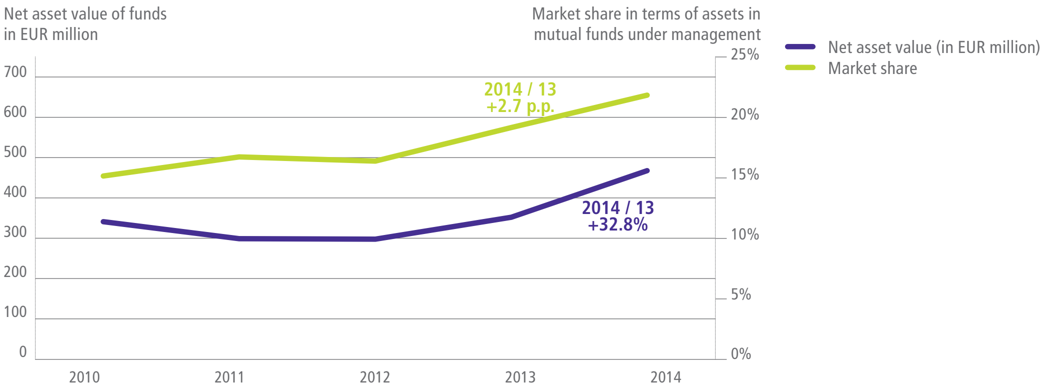
In times of the greatest uncertainty in the financial markets regarding the situation in the Slovenian banking sector, meetings with private banking customers were organised at which the management of the Bank answered all questions in order to maintain mutual trust. This has been confirmed by the rapidly growing number of private banking customers and assets under management, which in March 2015 exceeded the record levels from 2007. In 2014, the volume of assets under management in Private Banking increased by 23%, and the number of customers, users of this most demanding service, rose by almost 13%, making our Bank the largest and best quality provider of private banking services in the market.

Figure 5: Assets under management and the number of private banking customers




Last but not least, it is necessary to highlight the very good performance of NLB d.d. retail network achieved by the sale of services from NLB Vita and NLB Skladi, offering insurance and alternative investment products to our customers, with rapidly growing market shares. In 2014, the sale of property insurance increased significantly, the range of which will be further expanded in 2015, making it even more universal and complete. In order to optimise customer services and on the basis of the successful past performance of NLB Skladi, at the beginning of 2014 NLB d.d. transferred individual customer asset management from NLB d.d. to NLB Skladi. In the last few months of 2014, NLB d.d. retail network succeeded in obtaining more than 50% of all net payments to mutual funds in the Slovenian market, which is a remarkable success that can be attributed to the proactive and successful NLB d.d. retail network, being the only distribution channel available for this kind of services.

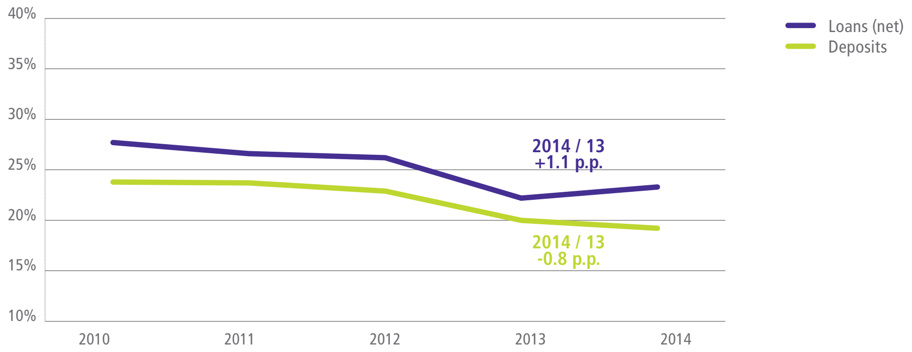
Figure 6: Assets in mutual funds under the management of NLB Skladi and their market share



## Corporate banking in Slovenia

In 2014 NLB d.d. has been very active in the segment of large, medium, small and micro enterprises, resulting in a growing market share in financing businesses, which has once again proven its systemic role, reliability and responsibility towards customers and the environment.

Figure 7: Corporate banking market shares in Slovenia




In 2014, the management by objective system was consistently introduced in all sub-segments on the level of every individual salesperson. One of the key objectives is to meet with customers in their companies, which helps account managers get better acquainted with the business models of their customers, their key opportunities and risks, and as a consequence professionally offer an appropriate selection of services. In 2014 more than 4,000 meetings were held, and the bank is planning to further strengthen these efforts.

The implementation of E-accounts is essential for all segments, and the Bank has already organised a number of workshops presenting the product in detail.

In order to be more efficient and responsive to customers, we introduced a scoring system facilitating a maximum 48-hour processing of transactions below a total exposure of EUR 100,000. In addition to fast treatment, based on the available information, the Bank performed a prior review of credit worthiness, having proactively offered credit lines to several thousand customers with a very fast operational execution.

In addition to the more efficient communication and processing of credit transactions, the Bank will in the future invest in the development of simple-to-use and more efficient transacting e-tools, thus attempting to connect the business operations of entrepreneurs as private individuals and their businesses by using the same platform.

### Small enterprises

The Bank's strategy gives special importance to micro and small enterprises. The Bank has a clear ambition to establish a supportive environment and act as the most relevant financial services provider to these clients.

In 2014 the loan approval process was expedited in the segment of small enterprises and a special loans offer was made to small enterprises with better terms and conditions, which enabled the Bank to revive the lending activity. One novelty introduced in the corporate segment in 2014 is a guarantee line.

In corporate e-banking, the Bank was active in acquiring new e-account issuers in the E-Account inter-banking system. As the entire business between e-account issuers and acquirers is run through the e-banking facility NLB Proklik, it had to be upgraded accordingly.

In 2014, NLB d.d. enabled legal entities to receive text message alerts informing them of their account balance and incoming payments to their NLB Poslovni račun, making it easier for them to monitor their cash flow. The volume of text message reminders/alerts sent to the corporate segment rose by 100% from August 2014 to December 2014.

In the area of advanced ATM services, in 2014 NLB d.d. retail network provided an automated cash deposit functionality catering for all euro denominations allowing legal entities to simply deposit at an ATM their daily proceeds which need to be placed in their business account. In line with the ATM strategy, the Bank has been increasing the number of ATMs catering for cash deposits as well as the payment of bills on UPN payment orders.

Establishment of the Innovative Entrepreneurship Centre is the most important additional encouragement for the area of small enterprises. The first step was the lease of unneeded business premises to entrepreneurial organisations and initiatives with a multiplying impact on the development of local entrepreneurship. The next key step will be to establish the Centre at the seat of the Bank, in which a supporting environment will be available. The Centre will, above all, be a meeting point of ideas, information and events where interested existing and future entrepreneurs will be able to access relevant information and advice, successfully establish companies and contact the Bank.

Apart from standard commercial initiatives, the Innovative Entrepreneurship Centre will try to develop ideas to promote social entrepreneurship and activities with a broader social impact.

In addition to financing for which previously determined conditions of a sustainable cash flow need to be met for the repayment, the key added value will mostly be effective networking and the connecting of supply and investment chains, as well as having expert advice available, the promotion of good ideas and similar.

### Key accounts and medium-sized enterprises

The Bank reviewed and updated business models in both sub-segments, including a re-segmentation and an accurate definition of a centralised customer relationship with customers. The key to a successful relationship is process optimisation and sales team development. The update of the sales process enabled the sales staff to focus even more on customer relationship management. The Bank provides for the development of key sales competencies through training in the areas of sales and negotiation skills as well as risk management.

The Bank considerably increased the number of customer contacts, mostly taking place on their premises, where the sales staff can get to know their business model and needs even better and create appropriate solutions for them.

NLB d.d. successfully organised many professional business conferences in 2014. Apart from regular bilateral meetings, numerous expert meetings were organised for medium-sized enterprises across the country in collaboration with the Chamber of Commerce and Industry of Slovenia, and the Regional Chambers, including a large pan-Slovenian event at which opportunities and challenges of international business activities were addressed. The meetings recorded excellent attendance and very positive feedback, which is why the Bank will continue to encourage and implement this type of direct communication.

It has to be observed that NLB d.d. was the most active and responsible commercial banking player in the Slovenian market in 2014. Despite having approximately a 22% market share in corporate lending, NLB d.d. as a lead agent organised the majority of all new syndicated facilities with substantial own participation; and organised – except for one – all issues of corporate debt securities (bonds/commercial papers). Through this structured approach the Bank wishes to participate in all important new deals. After years of decline, this has led to a new increase of the market share in corporate lending.

Further, the Bank participated in more than two-thirds (in terms of bank exposure and no. of employees) of all large corporate successful voluntary financial restructurings in the country. NLB d.d. teams have thereby proven their commitment to support the recovery of the Slovenian economy.

## Financial markets

The Bank's goal is to become the leading provider of overall services in the area of financial markets for all segments of investors and enable them efficient access and operations in domestic and foreign capital markets. The bank provides customers with a complete set of services, from counselling in the areas of business finance and raising capital via the issuing of equities and debt securities to providing good quality trading infrastructure for the conclusion of deals with different financial instruments. NLB d.d. is committed to providing cost efficient and competitive products, while maintaining the highest professional standards in its operations.

## Transactions in financial instruments

FX Spot and the execution of trades in currency hedging still represent the largest share of turnover in operations with corporate clients. The scope of concluded basic derivatives held for hedging against interest rate risk increased as a result of the low interest rates and the historically lowest spread between the market rate and the price of interest rate hedging. The volume of foreign exchange hedging instruments remains at the same level as in 2013. The Bank provides legal entities with alternative access to foreign exchange markets through a trading platform. Quite a few customers that change currency on a daily basis or need daily access to an up-to-date exchange rate are using this platform. The conclusion of deals through the platform gives customers quick, direct and partly automated access to the foreign exchange market. However, the wish for personal contact still prevails among customers.

In order to get as close to the customers as possible and transparently present to them the products of financial markets they can use to manage market risks, we are spending more and more time in the field and visiting customers at their location. In 2014, we visited more than 150 customers and together reviewed the possibilities and strategies of protection against interest and currency risks.

In 2014, brokerage activities were mainly focused on adjustment to the market situation, which reflected the accelerated consolidation of the branch. Numerous activities were realised through the main distribution channels (NLB d.d. distribution network, Private Banking, direct marketing) which enabled us to come closer to our customers, carefully examine their needs and respond with appropriate services. The increased volume of brokerage trading and favourable developments in domestic and foreign stock markets led to a 31% increase in the value of concluded transactions in 2014. Among other things, 2014 was marked by takeover bids for shares of important issuers from the Ljubljana Stock Exchange. The accessibility of services through the wide NLB d.d. distribution network enabled our customers to accept takeover bids in a simple way and the reinvestment of their assets was made easier by providing them with a complete set of NLB d.d. investment products. The bank will continue to focus its main activities on recognising the needs of its customers, creating a competitive advantage by adapting its products (upgrade of electronic trading, development of investment recommendation, and provision of modern infrastructure) and efficiently distributing them to the target segments of customers.

In 2014, NLB d.d. played an important role in maintaining the liquidity of Slovenian government bonds via the electronic MTS Slovenia platform. The total annual gross turnover was doubled in 2014 and NLB d.d. increased its share of total turnover from 4.3% to 5.9%. The Bank has maintained an active role in the primary market of Slovenian government treasury bills where an approximately 30% share has been obtained.

Further, NLB d.d. continues to play an active role in initial public offerings of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) instruments, where it is the only Slovenian bank to maintain the status of a primary service provider for short-term and long-term debt securities.

## Corporate finance / Investment banking

In addition to loan financing, NLB d.d. continued to offer a wide array of financing-related services to Slovenian companies. By organising issues of debt securities, NLB d.d. has remained the leading position in providing alternative financing sources to companies in the Slovene market. In 2014, NLB d.d. organised and executed several short-term corporate debt securities issues with a total nominal amount of EUR 135 million and two long-term corporate bond issues with a 5-year maturity with a total nominal value of EUR 116 million. The abovementioned issues represent 81% of the total nominal value of corporate debt securities issued in the Slovenian market in 2014. By offering these services to its clients, NLB d.d. is responding to Slovenian companies' efforts to diversify and broaden their funding base and to access international capital markets. NLB d.d. is able to assist them in this endeavour by allowing its clients to use its international counterparties' network, which is the largest in Slovenia. By complementing traditional loan financing with the organisation of debt securities issues, NLB d.d. wishes to expand the range of financing services it offers to its corporate clients, adjusting to its clients' changing needs and consequently allowing for the development of long-term and sustainable partnerships with the Bank.

In addition, NLB d.d. played an active part in financial advisory services to companies: in M&A processes, in organising takeover bids and in corporate debt restructuring advisory.

NLB d.d. successfully arranged a large number of syndicated loans in the total amount of EUR 196.8 million for the purpose of providing new financing to companies as well as refinancing existing loan financing. NLB d.d. remains the market-leading organiser of syndicated loans in Slovenia.

### International trade operations

In export financing, NLB d.d. is predominately focused on the key export markets of its clients. The Bank's wide correspondent banking network enables it to also provide services in other markets which might offer new business opportunities. By providing all export-related banking services, NLB d.d. enables its export-oriented clients smooth business in these key markets and, if necessary, collateral and risk-sharing services as well. In the case of larger long-term financing projects, the Bank is liaised with the SID Bank which provides commercial and non-commercial risk assurance and risk-sharing schemes.

### Custody services

The growth trend from the second half of the previous year continued in 2014, thus influencing the increase in assets under custody especially in the last quarter. The value of assets under custody at the end of 2014 exceeded EUR 9 billion for the third time since custody services were introduced in 1997. Good business results were achieved, among other things, by the renovation of marketing activities in which the Bank focused on a proactive approach to meeting clients' needs and the cross selling of services in the entire area of financial markets. In order to renew business processes and achieve synergic effects, NLB d.d. redesigned its IT system and introduced a single information system for the area of business with financial instruments for clients.

One of the major and important projects in 2014 was adjusting to the modifications of the US tax regulation FATCA. By registering on the IRS portal as a participating financial institution and a qualified financial intermediary, NLB d.d. confirmed its status of a reliable partner in the international financial network that continues to offer its clients the entire range of tax services within custody business.

In 2014, the volume of assets invested in foreign markets rose by almost 24% in comparison to 2013, while assets invested in domestic market grew by a solid 20%. In total, assets in the area of custody services increased by almost EUR 1.5 billion.

In the area of custody services for investment funds, the net value of assets grew by a solid 5%, i.e. by EUR 52 million. At year-end there were 25 investment funds and 11 pension funds under custody. Intensive preparations are underway for the transformation process of pension funds in accordance with the renewed regulation in the area of pension and disability insurance.

## Core foreign markets[1]

Figure 8: Operational results of the core entities (data on a "standalone" basis)


[1] More on core and non-core activities can be found on page 69 in the chapter Presentation of the NLB Group.

Banking is the main business activity of the NLB Group in our core foreign markets. In line with the NLB Group Strategy, banks focus on retail banking as well as small and medium enterprises. In all markets apart from Serbia, the NLB Group members has been operating with system-relevant market shares and has again been acknowledged for its refreshed business focus, which should result in a further improvement in relative profitability. NLB Nov penziski fond, a pension fund management company, also belongs to this segment.

In the past year, our member companies have focused on upgrading their relationship with clients or business culture, on the needs of clients and the use of safe and modern banking services. Banks have renovated their branch offices, optimised the branch network and introduced new distribution channels (mobile banking, call centres, upgrade of e-banking) and products. In this way they have proactively responded to market needs and changes.

In addition, the strategic subsidiaries have focused on establishing links with the broader social environment through engagement in humanitarian campaigns, sponsorship of sport events, participation in environmental projects, as well as fast responses to natural disasters by offering more favourable terms and conditions. These activities have laid the foundation and increased the possibilities for collaboration with all member companies' stakeholders, which is a prerequisite for increasing the recognisability and reputation of the NLB Group.

In 2014, the majority of banks were faced with surplus liquidity and limited investment options since the difficult economic conditions on core markets persist. They endeavoured to promote the lending activity. In 2014, NLB Tutunska banka, NLB Banka, Tuzla and NLB Prishtina increased the volume of loans to the non-banking sector.

The banks generally made a higher net income in 2014 than in 2013, mainly due to lower interest expenses based on a more active pricing policy relating to liabilities or lower interest rates.

The majority of banks improved their cost efficiency in 2014 compared to the previous year. The most cost-efficient banks were NLB Tutunska banka, NLB Razvojna banka and NLB Prishtina, with a cost to net income ratio of less than 50%.

In line with the abovementioned movement of revenues and costs, NLB Tutunska banka, NLB Razvojna banka, NLB Prishtina and NLB Banka, Tuzla made the highest profit before impairments and provisions in 2014.

The majority of banks (with the exception of NLB banka, Belgrade) finished 2014, compared to 2013, with a higher net profit.

## Table 4: Performance as at 31.12.2014 (data on a "standalone" basis)

(in EUR 000)

| | NLB Tutunska banka | NLB Razvojna banka | NLB Prishtina | NLB Montenegro-banka | NLB Banka, Tuzla | NLB banka, Belgrade |
|---|---|---|---|---|---|---|
| Net profit / loss | 11,149 | 7,646 | 5,435 | 4,351 | 2,729 | -18,322 |
| ROE after tax | 10.8% | 12.3% | 11.2% | 7.3% | 6.4% | -39.2% |
| CIR | 45.0% | 49.0% | 48.9% | 76.4% | 62.2% | 167.3% |
| Capital Adequacy Ratio | 15.3% | 17.7% | 16.6% | 13.9% | 13.2% | 25.6% |

NLB banka, Belgrade and NLB Montenegrobanka have been carrying out a restructuring process, which started in 2014, with the objective to transform them into flexible, sustainably profitable banks. One of the initiatives in the restructuring process entails the transfer of NPLs and real estate to two separate companies; i.e. NLB Srbija and NLB Crna Gora. The still comparably high interest margins in these two markets allow for expectations of the sustainably sound profitability of both banks.

The financial performance of NLB Nov penziski fond, Skopje was also positive in 2014. Having managed two pension funds the company made a bigger profit than in 2013. However, the net profit of the company in 2014 was lower due to the introduction of a new profit tax in the amount of 10%. The company increased the number of insured persons and the net value of both pension funds. Net value of obligatory fund NLB Penziski Fond as at 31.12.2014 amounted to EUR 249 million while net value of voluntary fund NLB Penzija plus was EUR 3.9 million.

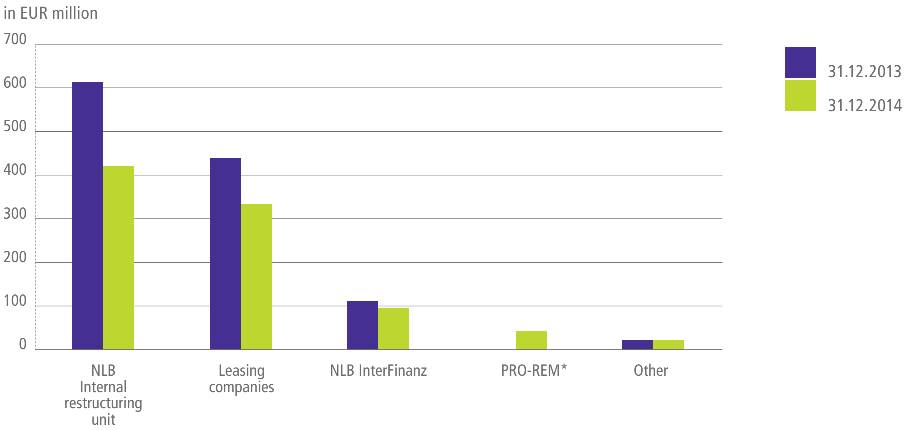
# 8. Non-core markets and activities

In accordance with the strategy of the NLB Group and the Restructuring Plan approved by the EC, the following activities are defined as non-core and are to be exited from or wound down:
- receivables from clients from non-core activities and receivables from foreign clients,
- the Trieste Branch,
- investments in equity securities, and
- non-core members of the NLB Group (mainly Leasing entities, Prvi Faktor Group, NLB Interfinanz).

All activities within the non-core sectors are focused on the cost-effective and value-maximising wind-down and exiting of portfolios and entities by means of collection or divestment on the asset and entity level. NLB d.d. uses a wide range of methods when exiting from exposures and entities, including restructuring, repossession, the collection of assets as well as the divestment of assets, portfolios and entities where possible.

Total assets of the Non-Core segment at the end of 2014 amounted to EUR 912.3 million, representing a reduction of 272.5 million or 23.0% from the level at the end of 2013. They account for 7.7% of total group assets (net) as of 31.12.2014, down from the ratio of 9.5% as of 31.12.2013.

Figure 9: Asset evolution by activity




* A spin off from NLB Leasing Ljubljana.

In 2014, the Bank's net exposure to clients in the non-core activities was reduced by EUR 110 million to net EUR 335 million at the end of the year (a 25% reduction over the previous year). The majority of the annual decrease in exposure to unrelated companies are regular repayments and amounts collected in pre-court and court proceedings, and lowered exposures from guarantees.

The organisation of non-core activities is continuously refined to allow for the most cost-effective implementation of the defined objectives. Consequently, the sector for domestic and international exposures within NLB d.d. was consolidated into one unit following the transfer of a large part of domestic exposures to the BAMC in 2014 (the economic transfer happened by the end of 2013 in the course of the extraordinary measures).

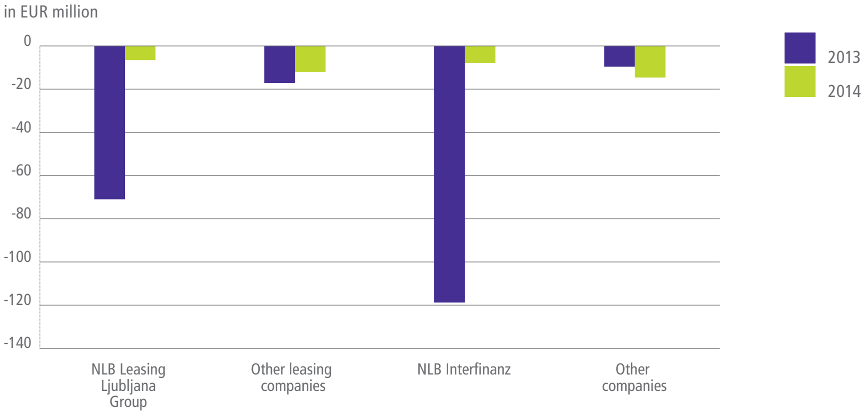
Given the transfers of portfolios from entities such as LHB, NLB Factoring Ostrava, the Trieste Branch and others to NLB d.d., the employment and operating costs have been substantially reduced ahead of the planned or initiated liquidation or closure of such entities.

Costs are thus continuously decreasing in line with the decrease in the asset base; total costs related to non-core activities were down to EUR 34.9 million in 2014, representing a reduction of EUR 7.7 million (18.0%) from the total costs of EUR 42.6 million in 2013. Total costs of the non-core activities represented 11.3% of the total cost base in 2014, down from the respective value of 12.6% in 2013.

NLB d.d. successfully divested a number of non-core equity investments in companies in 2014, including stakes in Mercator d.d. and Letrika d.d., part of the shares in Petrol d.d. and has begun with the process of exiting from ownership in Kolektor Group d.o.o. The value of the portfolio went down by EUR 62.4 million or 67.7% and NLB d.d. thereby already fully met the commitments given by the Republic of Slovenia to the EC to decrease this portfolio by 40%–50% by 31.12.2015.

The Group continues with gradual wind-down and liquidation – where possible selling:
- The continuation of the liquidation of the company NLB Factoring Ostrava, which started in 2013, and the divestment of almost the entire portfolio (with repayments, through the selling of the portfolio in the local market and by transferring a small part of the portfolio to NLB d.d.).
- The continuation of the regular liquidation of the company LHB Trade d.o.o., Zagreb, that started in 2013.
- The gradual reduction of the volume of operations at NLB InterFinanz, Zurich, and the transfer of part of the credit portfolio to NLB d.d.
- Initiation of the regular liquidation of the company NLB Leasing Sofia.
- All other leasing companies, with the exception of NLB Leasing Ljubljana focused on the management and repayment of the existing portfolio, as they stopped concluding new deals.
- As NLB d.d. did not participate in the recapitalisation of Banka Celje and Adria Bank, Vienna, in 2014, it no longer has any stake in these two banks.

Figure 10: Operational results of non-core entities (data on a "standalone" basis)



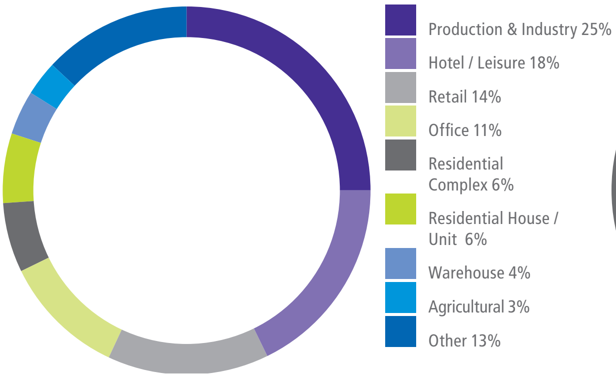

## The NLB Group real estate asset management

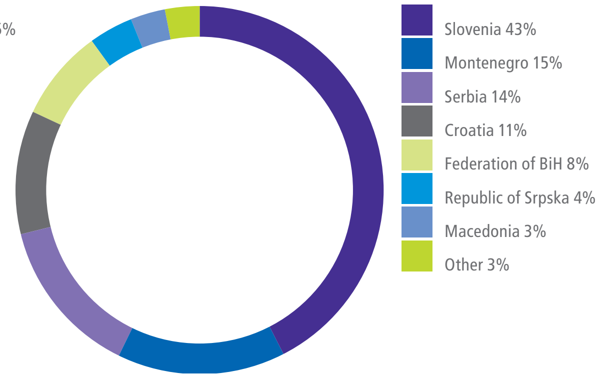
In realising a large part of the NPL portfolio backed by real-estate collateral, in 2014 NLB d.d. established a central unit to actively manage the process of divestment from such assets by means of the repossession, enforcement or auctioning of assets in bankruptcy procedures.

This unit – Group Real Estate Asset Management (GREAM) – is a service unit for the whole Group, both core and non-core entities, and helps segment the collateral base in assets perceived to have 'upside potential' and thus considered worthwhile keeping in the Bank's books for a limited time and the rest – which is earmarked for a 'fast run-down'.

In total, real-estate collateral from non-performing loans of the NLB Group as of December 2014 amounted to EUR 1.9 billion. In addition, the book value of real estate on stock and investment property amounted to EUR 148 million at the end of December 2014.

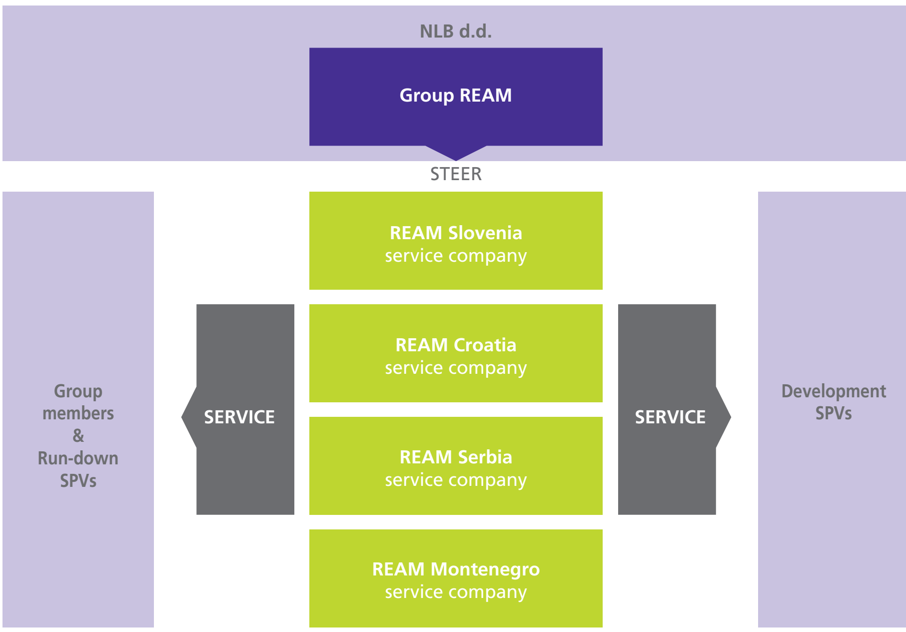
## Figure 11: Real-estate collateral split by segment and country




In February 2015 local REAM ("Real Estate Asset Management") service companies were established in Croatia, Serbia and Montenegro, while in Slovenia the company is in the process of establishing. These companies will purchase and manage certain real estate (arising from collateral) with further 'upside potential' as well as offer expert services and advice to NLB Group members.

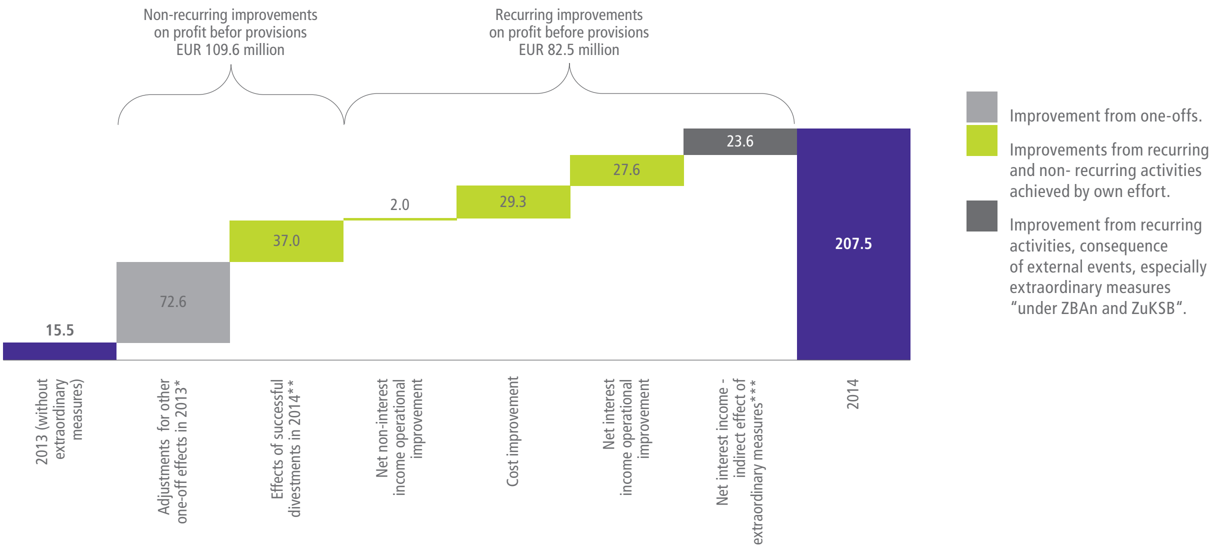
## Figure 12: Organisational chart of the GREAM – REAM at the NLB Group level



# 9. Overview of the NLB Group's financial performance in 2014

The financial performance in 2014 may be summarised as:
- Total assets continued to decline (- 5% YoY) in line with the strategy and general deleveraging of the macro environment; NLB d.d. regained substantial amounts of deposits (+8% YoY) after successful conclusion of the recapitalisation demonstrating the strong deposit franchise of the Bank; due to its good liquidity situation the Bank was able to repay most of its wholesale funding, including all ECB funding.
- Net-interest income improved substantially (41% YoY) with help of very active measures in Asset Liability Management, the active management of funding sources and appropriate pricing of assets and liabilities; the positive effects were supported by the effects of the extraordinary measures of 2013 (Figure 13).
- The net non-interest result increased strongly through profitable sales of non-core assets as well as the positive results of financial markets operations, yielding a YoY increase in total net non-interest income of 58%. The regular fee business remained stable.
- Costs strongly decreased for the second time in a row, in 2014 by 9% YoY.
- It is therefore crucial to note that the NLB Group's pre-provision profit improved substantially as a result of the successful restructuring and the active return to the market. Compared to the normalised profit before impairments and provisions of EUR 15.5 million in 2013 (net of effects of transfer of assets to the BAMC and termination of the bank's qualified liabilities), 2014 recorded an increase in profit before impairmentsand provisions to EUR 207.5 million, namely an improvement of EUR 192.1 million. This improvement partly derives from non-recurring improvements (EUR +109.6 million / +57%), and partly from recurring improvements and activities (EUR +82.5 million / 43%) for which a large majority (EUR 59 million or 71%) can be attributed to the Bank's efforts in 2014, while approximately EUR 23.6 million (29%) represents the indirect effects of the extraordinary measures (Figure 13).

Figure 13: Result before impairments and provisions for the NLB Group – YoY reconciliation (in EUR million)[2]




* Non-recurring effects on 2013 profit before impairments and provisions other than extraordinary measures.
** Non-recurring effect on 2014 profits mostly due to sales of non-core equities.
***Estimated net effect due to transfer of the portfolio to the BAMC for which the bank received BAMC bonds (EUR +3.7 million), interest income of recap bond (EUR +12.0 million) and the effect of lower interest expenses due to the termination of the bank's qualified liabilities (EUR +7.9 million).

[2] The NLB's internal analysis.

- Operations of the NLB Group improved greatly in terms of the stability of both revenue and net-income developments, also on a quarterly basis.
- In 2014 the NLB Group achieved EUR 62.3 million in after-tax profit, increased its capital adequacy and increased the value of the capital it was entrusted with.
- Both core as well as non-core activities of the Group saw increased results; all core business segments operated with a positive bottom-line in 2014.

## Statement of financial position

### Table 5: Key financial position items

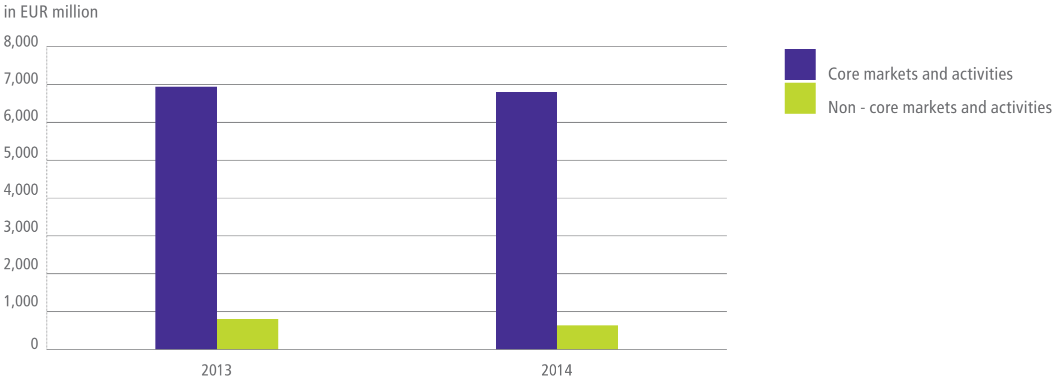
in EUR million

| | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | Growth | 31.12.2014 | 31.12.2013 | Growth |
| **ASSETS** | | | | | | |
| Cash, cash balances at central banks and other demand deposits at banks | 434.4 | 590.6 | -26% | 1,127.5 | 1,250.6 | -10% |
| Loans and advances to banks | 159.3 | 160.6 | -1% | 271.3 | 224.6 | 21% |
| Loans to non-banking sector | 5,699.8 | 6,128.9 | -7% | 7,415.1 | 7,744.2 | -4% |
| Gross loans | 6,698.2 | 7,203.2 | -7% | 9,053.4 | 9,508.5 | -5% |
| - corporate | 3,727.1 | 4,288.2 | -13% | 4,942.1 | 5,515.9 | -10% |
| - households | 1,958.8 | 1,933.0 | 1% | 2,958.0 | 2,875.0 | 3% |
| - state | 393.2 | 359.4 | 9% | 534.2 | 495.0 | 8% |
| - BAMC bond | 619.1 | 622.6 | | 619.1 | 622.6 | |
| Impairments | -998.4 | -1,074.3 | -7% | -1,638.3 | -1,764.3 | -7% |
| Financial assets | 2,037.9 | 2,128.3 | -4% | 2,529.3 | 2,650.3 | -5% |
| - Held for trading | 138.8 | 104.8 | 32% | 138.2 | 104.3 | 32% |
| - AFS, held to maturity, designated at fair value through PL | 1,899.1 | 2,023.5 | -6% | 2,391.1 | 2,546.0 | -6% |
| Investments in subsidiaries, associates and JV | 352.7 | 276.6 | 28% | 37.5 | 28.3 | 33% |
| Property and equipment | 98.8 | 109.9 | -10% | 256.6 | 273.4 | -6% |
| Intangible assets | 33.7 | 45.0 | -25% | 42.8 | 54.7 | -22% |
| Other assets | 69.0 | 67.6 | 2% | 229.3 | 264.0 | -13% |
| **Total assets** | **8,885.7** | **9,507.4** | **-7%** | **11,909.5** | **12,490.1** | **-5%** |
| **LIABILITIES** | | | | | | |
| Deposits from non-banking sector | 6,299.6 | 5,747.5 | 10% | 8,948.5 | 8,260.9 | 8% |
| - corporate | 1,312.2 | 1,257.5 | 4% | 2,031.3 | 1,963.6 | 3% |
| - households | 4,515.8 | 4,345.3 | 4% | 6,336.9 | 6,064.7 | 4% |
| - state | 471.6 | 144.7 | 226% | 580.3 | 232.6 | 150% |
| Deposits from banks | 91.1 | 74.2 | 23% | 62.3 | 37.4 | 67% |
| Debt securities in issue | 359.9 | 68.8 | 423% | 359.9 | 68.8 | 423% |
| Borrowings | 677.1 | 2,298.1 | -71% | 851.4 | 2,548.5 | -67% |
| Other liabilities | 253.1 | 225.4 | 12% | 300.8 | 281.6 | 7% |
| Subordinated debt | 0.0 | 0.0 | - | 17.3 | 21.9 | -21% |
| Equity | 1,204.9 | 1,093.5 | 10% | 1,343.1 | 1,247.4 | 8% |
| Shareholders equity (including minority interest) | - | - | - | 1,369.3 | 1,271.0 | 8% |
| **Total liabilities** | **8,885.7** | **9,507.4** | **-7%** | **11,909.5** | **12,490.1** | **-5%** |

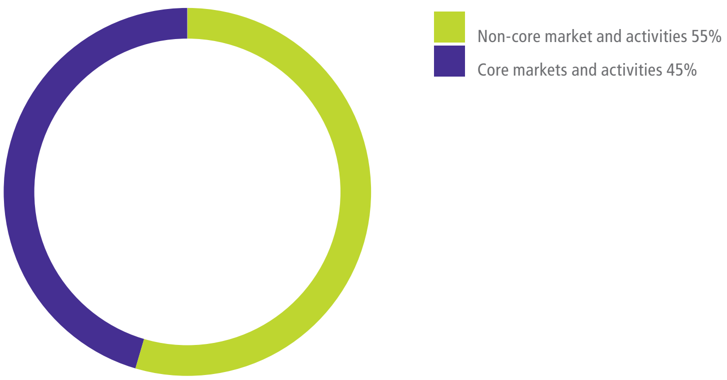
The NLB Group's total assets amounted to EUR 11,909.5 million at the end of 2014, down 5% on the end of the previous year.

Loans to the non-banking sector in the NLB Group dropped in 2014 by EUR 329.1 million or 4% as the combined effect of the continued weak demand in corporate lending and the Bank's withdrawal from non-core activities and the NPL reduction. In this difficult environment market shares in Slovenia could be slightly increased in all market segments with a substantial reactivation of sales activities and competitive offerings in all product segments. Retail loan demand remained stable and the scope slightly increased in comparison to 2013.

## Figure 14: Net loans to the non-banking sector




## Figure 15: Contribution to the decrease of the net non-banking sector loans



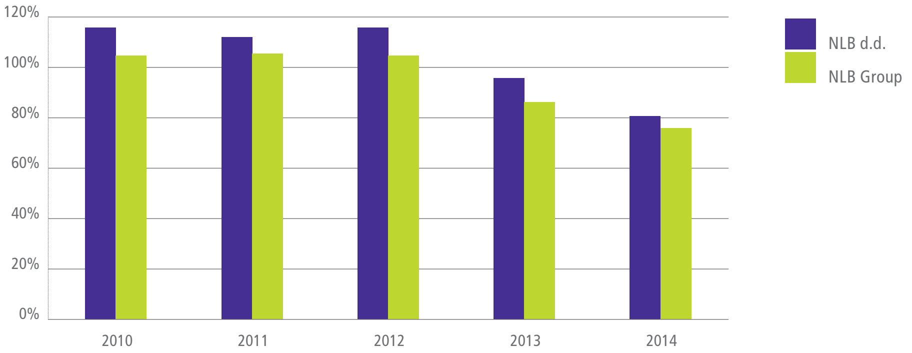

The volume of approved loans in NLB d.d. in 2014 for both corporate (73%) and retail (27%) remains solid at around EUR 1.5 billion. Of that, approximately 58% relate to new loans, with the remaining part being prolongations of mostly short-term lines.

The NLB Group maintained high liquidity reserves throughout the year 2014. Non-banking sector deposits remain the primary source of funding. Deposits of the non-banking sector increased by EUR 687.7 million or 8% YoY. The increase was recorded in the retail segment as well as in the corporate segment but most of all in the state segment.

In 2014 the total volume of refinancing decreased due to the early repayment of a long-term loan (from the ECB in 2012) and the further deleveraging of international financial markets. The Bank successfully returned to wholesale markets with the issue of an unsecured bond in the amount of EUR 300 million. A loan of EUR 120 million was taken out with the ECB (TLTRO) in December.

The net loan to deposit ratio (LTD) for the non-banking sector of the NLB Group stood at 75.9% (BAMC bonds excluded) at the end of 2014, a decrease of 10.3 percentage points over the end of the previous year.

Figure 16: Loan to deposit ratio (LTD) for the non-banking sector




NLB d.d. reinforced its leading market share in the retail segments of lending operations in Slovenia (measured by net loans) which at the end of 2014 accounted for 24.2%, whereas the deposit market share remained stable and accounted for 30.2%. In the corporate segment in Slovenia, the Bank's market share increased in terms of loans (measured by net loans) to 23.3%, while in terms of deposits it decreased and accounted for 19.2%.

## Income statement

Table 6: Key income statement items

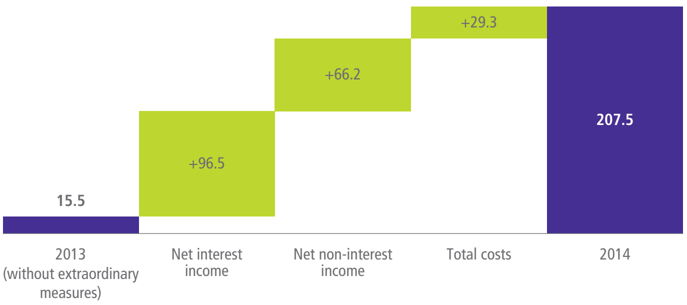
in EUR million

| | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Growth | 2014 | 2013 | Growth |
| Net interest income | 227.3 | 157.4 | 44% | 330.0 | 233.5 | 41% |
| Net fees and commissions | 100.7 | 101.1 | 0% | 139.6 | 137.8 | 1% |
| Dividend income | 6.4 | 4.1 | 55% | 1.8 | 2.5 | -27% |
| Net income from financial transactions | 33.7 | 6.6 | 414% | 38.3 | -15.1 | - |
| Net other income | 1.0 | -9.7 | - | 1.3 | -10.3 | - |
| Net non-interest income | 141.8 | 102.0 | 39% | 181.0 | 114.8 | 58% |
| **Total net operating income without one off** | **369.1** | **259.4** | **42%** | **511.0** | **348.3** | **47%** |
| Employee costs | -102.4 | -111.1 | -8% | -162.9 | -175.4 | -7% |
| Other general administrative expenses | -59.0 | -67.1 | -12% | -96.7 | -105.5 | -8% |
| Restructuring costs | -7.5 | -7.6 | -1% | -8.1 | -7.6 | 7% |
| Depreciation and amortisation | -24.4 | -26.6 | -8% | -35.8 | -44.3 | -19% |
| Total costs | -193.3 | -212.4 | -9% | -303.5 | -332.8 | -9% |
| Transfer to BAMC | | -545.1 | - | | -545.1 | - |
| Termination of the bank's qualified liabilities | | 257.6 | - | | 257.6 | - |
| Extraordinary measures* | | -287.5 | - | | -287.5 | - |
| Impairments of financial assets AFS through equity | -0.8 | -23.8 | -96% | -1.0 | -23.8 | -96% |
| Credit impairments and provisions | -84.2 | -704.5 | -88% | -119.9 | -901.6 | -87% |
| Other impairments and provisions | -8.0 | -497.9 | -98% | -20.6 | -144.8 | -86% |
| Impairments and provisions | -93.1 | -1,226.3 | -92% | -141.4 | -1,070.2 | -87% |
| Result from equity investments in associates and joint ventures (equity method) | | | - | 3.1 | -26.5 | - |
| **Result before tax** | **82.7** | **-1,466.8** | - | **69.2** | **-1,368.7** | - |
| Income tax expense | -1.2 | -73.5 | -98% | -4.1 | -73.5 | -94% |
| Result of minority shareholders | | | - | 2.7 | -0.6 | - |
| **Result after tax** | **81.5** | **-1,540.3** | - | **62.3** | **-1,441.6** | - |

* Extraordinary measures include the effects of measures to stabilize the Bank's operations and were carried out in 2013 (transfer of assets, termination of the Bank's qualified liabilities).

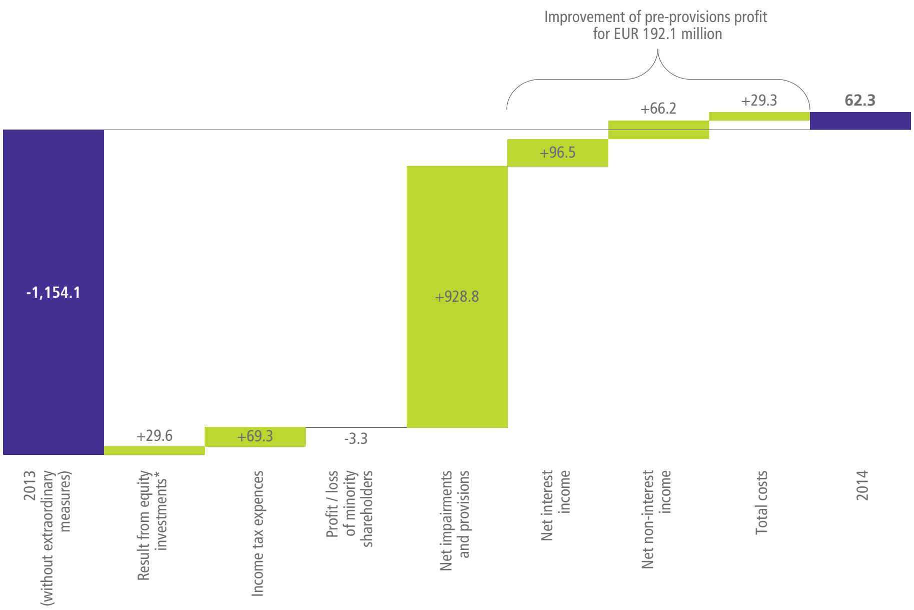
The following YoY reconciliation of profit before impairments and provisions shows substantial improvements in net interest income (EUR +96.5 million) with the large majority being the result of structural funding changes and pricing improvements, while approximately EUR 23.6 million can be attributed to the consequences of the extraordinary measures taken by the Bank of Slovenia and the Republic of Slovenia at the end of 2013. The improvement in net non-interest income (EUR +66.2 million) is largely a YoY improvement of the results of divestments of non-core assets. The cost improvement shown in 2014 compared to 2013 (EUR -29.3 million) was driven by the continuing cost-optimisation processes.

Figure 17: Profit before impairments and provisions for the NLB Group – YoY reconciliation (in EUR million)




Stabilised impairments and provisions additionally contributed to a better final result after taxes.

Figure 18: Net profit of the NLB Group – YoY reconciliation (in EUR million)

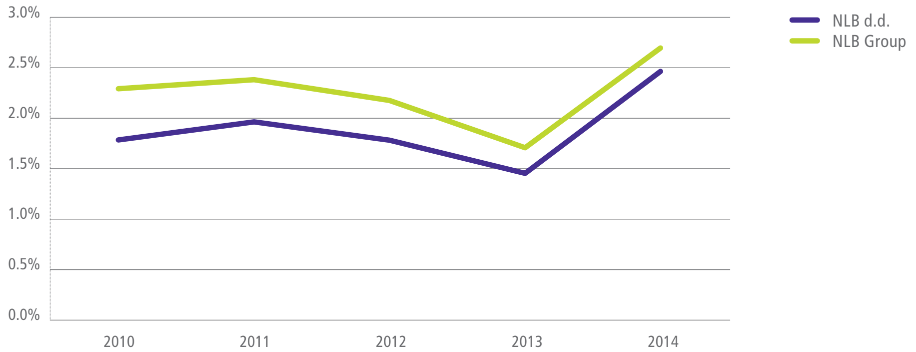



*Profit from equity investments in the subsidiaries and joint ventures (equity method).

Net interest income, which accounts for the bulk of the NLB Group's revenue, amounted to EUR 330.0 million or up EUR 96.5 million (41%) on the previous year. The improvement in net interest income was mainly influenced by the decrease in interest expenses (down by EUR 93.5 million on the previous year), being the result of the active management of liabilities, including the active pricing policy and partial repayment of the wholesale funding lines. Compared to the previous year, interest income was up EUR 3.0 million or 0.6% as well. Interest income was stable throughout all of 2014. While interest income in the retail segment compared to 2013 slightly increased, revenues in the corporate segment decreased as a result of reducing the size of the loan portfolio due to loan repayment, as well as the transfer of the portfolio to the BAMC. The loss in interest income from the transferred BAMC portfolio is estimated to have been compensated with income from the BAMC securities with an estimated net positive effect in 2014 of EUR 3.6 million. In 2014 interest income was additionally negatively impaired by the decreasing yields on bank's securities (secondary liquidity) portfolio.

The total net interest margin in the NLB Group was 2.7%, an increase of 1.0 percentage points over the previous year.

## Figure 19: Evolution of the net interest margin




The NLB Group's net non-interest income amounted to EUR 181.0 million, up by EUR 66.2 million or 58% more than in the year before (excluding the effects of extraordinary measures to achieve capital adequacy, namely gains from the effect of termination of bank's qualified liabilities and the BAMC transfer).

As the largest and most stable part of net non-interest income, net fees and commissions of the NLB Group amounted to EUR 139.6 million, up EUR 1.8 million on the previous year. Most of the fees are transaction linked and the volume of operations is closely related to economic growth. Fee income has been burdened by the tax on financial services since March 2013. The most important source of net fees and commissions is net income from payment transactions which totalled EUR 49.6 million, fee income linked to basic accounts which totalled EUR 40.1 million, and card operations (EUR 25.2 million). Fees related to guarantees are still contributing an important share of net fees and commission income despite the Bank's withdrawal from the construction sector, which has been a major source of this income. Thanks to strong inflows into asset management and bancassurance products, the fees and commissions related to these products increased substantially (+ 25% YoY).

Payments into deposit guarantee schemes totalled EUR 8.4 million (up EUR 0.5 million on 2013).

## Table 7: Structure of net fees and commissions

in EUR million

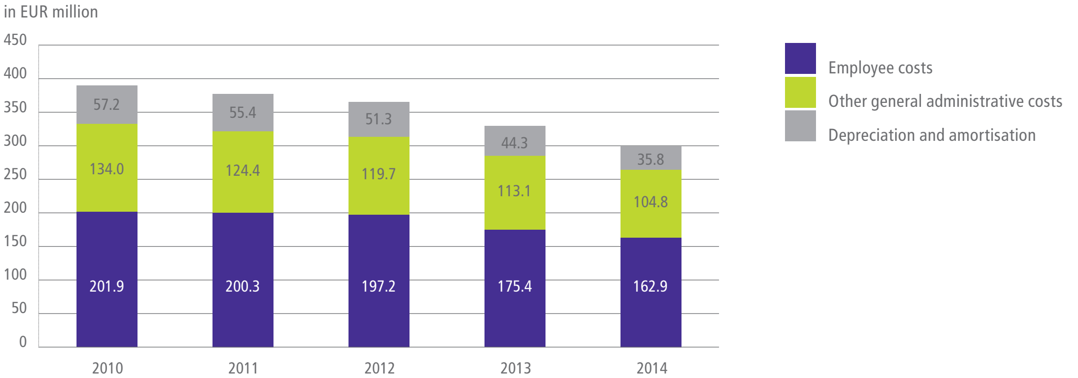
| | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | Growth | 2014 | 2013 | Growth |
| Payment transactions | 28.1 | 29.5 | -5% | 49.6 | 50.2 | -1% |
| Cards and ATM operations | 20.7 | 21.2 | -2% | 25.2 | 26.1 | -4% |
| Basic accounts | 32.8 | 33.7 | -3% | 40.1 | 40.0 | 0% |
| Guarantees | 9.5 | 8.3 | 14% | 14.4 | 13.7 | 5% |
| Investment banking | 4.0 | 4.3 | -5% | 5.1 | 4.3 | 16% |
| Asset management | 2.8 | 1.8 | 56% | 10.6 | 8.3 | 27% |
| Bancassurance | 2.9 | 2.4 | 19% | 2.9 | 2.4 | 19% |
| Other | -0.0 | -0.1 | -19% | -8.1 | -7.3 | 11% |
| **Net fees and commissions** | **100.7** | **101.1** | **0%** | **139.6** | **137.8** | **1%** |

The NLB Group received EUR 1.8 million in dividends in 2014.

NLB d.d. was able to successfully divest its substantial equity stakes, realising positive P/L effects on all transactions. In addition, the Bank continued to actively manage its liquidity reserve and generated some profits thanks to the improved market conditions.

Further decreases in the NLB Group's costs in 2014 were driven by the restructuring process. Operating costs including depreciation in the NLB Group totalled EUR 303.5 million, down EUR 29.3 million or 9% over the previous year. All cost categories went down – labour costs, other general administrative costs and depreciation. The total costs in both 2014 and in the year before were negatively affected by high one-off costs related to the assets quality review and stress testing.

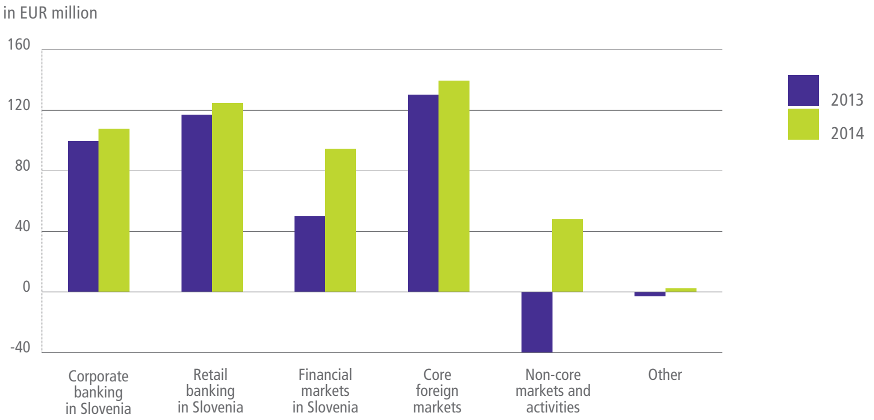
## Figure 20: Costs of the NLB Group




Following two subsequent AQR reviews in 2013 and 2014, the levels of net new impairments and provisions was stabilised at EUR 141.4 million in 2014. NPL coverage[3] stood at 68.3% at the end of 2014. The reduction of NPLs remains a core focus of attention for the NLB Group, where different wind-downs as well as other active divestment approaches are being used to achieve the set targets (for further details of NPL developments, see the chapter on Risk management on page 41).

[3] The coverage of gross non-performing loans with impairments on all loans.

## Figure 21: Net income by segment




The Group results are mainly driven by NLB d.d. which, in terms of revenues, represents approximately 70% of the total Group. All core banks in the Group, except for NLB banka, Belgrade, which is being restructured, ended 2014 with a profit. On the other hand, the majority of non-core members operated at a loss. More details are available in the chapter "Business performance of the segments". According to the Group strategy to withdraw from these activities, they are decreasing the volume of business and mostly not concluding any new transactions so the current revenues do not suffice to cover the costs of financing and business costs.

## Figure 22: Contribution to the total net revenues of the NLB Group in 2014


## Capital and capital adequacy

At the beginning of 2014, new European legislation CRD IV came into force based on the principles of the Basel III guidelines. Instead of one capital ratio, the new legislation defines three capital ratios reflecting different categories of capital:

- Common Equity Tier 1 ratio (the ratio between the common or CET1 capital and risk weighted assets or RWA), which must exceed 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must exceed 6%; and
- Total capital ratio (total capital to RWA), which must exceed 8%.

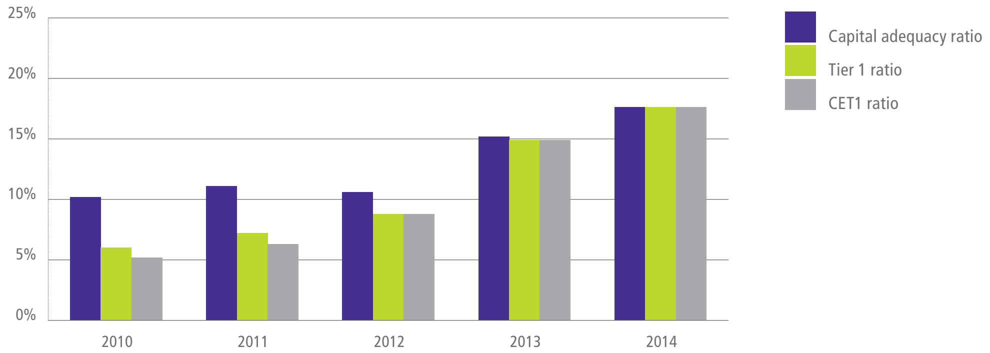
The capital of the Bank and the Group in 2014 only consisted of the highest quality CET1 capital (no subordinated instruments that could be classified as capital of a lower category). Therefore, all three achieved ratios are equal.

All three capital ratios for the NLB Group equalled 17.6% at the end of 2014 and for NLB d.d. 22.7%, which in both cases is more than at the end of 2013.

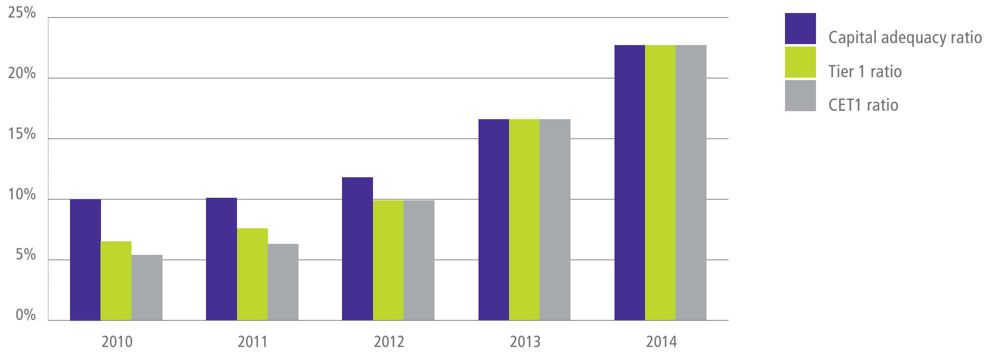
The changes in the legislation at the start of 2014 had a positive impact on the capital adequacy of both NLB d.d. (+2.5 percentage points, mainly due to a reduction in RWA) and the NLB Group (+0.9 percentage points; the impact of the lower RWA was largely offset by the reduction in capital due to the exclusion of the capital instruments of minority shareholders). At the end of the transitional period, when all requirements of the new legislation have been fully implemented, the impact on the NLB Group will be lower, but still positive; with the impact on NLB d.d. remaining relatively high.

The operations of the Bank and the Group in 2014 also had a positive effect on the capital position. Capital ratios improved on account of the inclusion of the 2014 profits into capital and on account of the lower exposure to risks.

## Figure 23: Capital ratios of the NLB Group




## Figure 24: Capital ratios of NLB d.d.



## Business performance of the segments

The NLB Group conducts business with clients in various segments that are defined in accordance with the Bank's long-term strategy and are divided into two major segments, i.e. core and non-core.

Core markets and activities include:
- Retail banking in Slovenia which includes banking with individuals and asset management as well as the results of the jointly-controlled company NLB Vita and associated companies Skupna pokojninska družba and Bankart.
- Corporate banking in Slovenia, which includes banking with large (key), medium-sized, micro and small companies.
- Financial markets in Slovenia which include treasury activities, asset and liability management, trading in financial instruments, brokerage and custody of securities as well as financial consulting.
- Core foreign markets which include the operations of the core NLB Group companies in core markets (Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia).

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

Other activities (other) include categories whose business results cannot be allocated to individual segments.

The business performance of individual segments is monitored according to profit before tax.

In the area of core markets and activities, EUR 132.8 million of profit before tax was generated in 2014. The result was much better than in 2013 owing to the lower impairments and provisions, lower operating costs and higher net revenues.

A loss of EUR 51.1 million before tax was incurred in non-core markets and activities, which is significantly lower than in the previous year when the segment was heavily burdened by the valuation of the portfolio. The lower loss was also influenced by the improvement in operations at a lower cost, as well as the successful divestment of non-core equity investments where NLB d.d. recorded a profit of EUR 22.8 million.

More detailed information on the financial results and performance of individual segments is given below.

### Table 8: Performance of the NLB Group by core and non-core markets and activities

in EUR million

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Core markets and activities | Corporate banking Slovenia | Retail banking Slovenia | Financial markets Slovenia | Core foreign markets | Non-core markets and activities | Other | NLB Group |
| Net interest income | 312.2 | 58.9 | 80.1 | 69.5 | 103.7 | 17.8 | | 330.0 |
| Net non-interest income | 154.3 | 48.9 | 44.6 | 25.0 | 35.7 | 30.2 | 2.2 | 186.6 |
| **Total net operating income without extraordinary measures** | **466.4** | **107.8** | **124.7** | **94.5** | **139.4** | **48.0** | **2.2** | **516.6** |
| Total costs | -259.2 | -57.7 | -90.5 | -21.4 | -89.6 | -34.9 | -15.0 | -309.1 |
| Extraordinary measures | | | | | | | | |
| Impairments and provisions | -77.6 | -43.3 | -6.9 | 12.4 | -39.8 | -64.1 | 0.3 | -141.4 |
| Result from equity investments in associates and joint ventures (equity method) | 3.1 | | 3.1 | | | | | 3.1 |
| **Result before tax** | **132.8** | **6.9** | **30.5** | **85.5** | **9.9** | **-51.1** | **-12.5** | **69.2** |
| Income tax expense | | | | | | | | -4.1 |
| Result of minority shareholders | 2.7 | | | | 2.7 | | | 2.7 |
| **Result after tax** | | | | | | | | **62.3** |
| Segment assets | 10,944.9 | 2,141.4 | 2,049.8 | 3,416.2 | 3,337.5 | 912.3 | 52.3 | 11,909.5 |
| Segment liabilities | 10,385.1 | 1,307.2 | 4,517.3 | 1,677.1 | 2,883.5 | 124.0 | 31.2 | 10,540.2 |

in EUR million

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Core markets and activities | Corporate banking Slovenia | Retail banking Slovenia | Financial markets Slovenia | Core foreign markets | Non-core markets and activities | Other | NLB Group |
| Net interest income | 247.1 | 46.6 | 72.9 | 37.6 | 90.0 | -13.5 | -0.1 | 233.5 |
| Net non-interest income | 149.9 | 52.8 | 44.2 | 12.5 | 40.3 | -26.4 | -2.9 | 120.5 |
| **Total net operating income without extraordinary measures** | **397.0** | **99.5** | **117.2** | **50.1** | **130.3** | **-39.9** | **-3.0** | **354.0** |
| Total costs | -281.5 | -47.7 | -117.5 | -21.7 | -94.7 | -42.6 | -14.5 | -338.6 |
| Extraordinary measures | 61.6 | -196.0 | | 257.6 | | -349.0 | | -287.5 |
| Impairments and provisions | -580.9 | -346.4 | -26.7 | -15.9 | -191.9 | -477.8 | -11.5 | -1,070.2 |
| Result from equity investments in associates and joint ventures (equity method) | 2.6 | | 2.6 | | | -29.1 | | -26.5 |
| **Result before tax** | **-401.2** | **-490.7** | **-24.3** | **270.1** | **-156.3** | **-938.4** | **-29.0** | **-1,368.7** |
| Income tax expense | | | | | | | | -73.5 |
| Result of minority shareholders | -0.6 | | | | -0.6 | | | -0.6 |
| **Result after tax** | | | | | | | | **-1,441.6** |
| Segment assets | 11,277.3 | 2,419.9 | 2,038.0 | 3,554.1 | 3,265.3 | 1,184.8 | 28.1 | 12,490.1 |
| Segment liabilities | 11,029.8 | 1,307.2 | 4,346.8 | 2,575.2 | 2,800.6 | 146.5 | 42.9 | 11,219.1 |

## Core business

### Retail banking in Slovenia

#### Table 9: Performance of the retail banking segment in Slovenia

in EUR million

| | Retail banking Slovenia | | |
|---|---|---|---|
| | **2014** | **2013** | **Growth** |
| Net interest income | 80.1 | 72.9 | 10% |
| Net non-interest income | 44.6 | 44.2 | 1% |
| **Total net operating income without extraordinary measures** | **124.7** | **117.2** | **6%** |
| Total costs | -90.5 | -117.5 | -23% |
| **Result before impairments and provisions without extraordinary measures** | **34.3** | **-0.3** | **-** |
| Impairments and provisions | -6.9 | -26.7 | -74% |
| Result from equity investments in associates and joint ventures (equity method) | 3.1 | 2.6 | 18% |
| **Result before tax** | **30.5** | **-24.3** | **-** |
| Segment assets | 2,049.8 | 2,038.0 | 1% |
| Segment liabilities | 4,517.3 | 4,346.8 | 4% |

In 2014, the Bank's retail operations generated a profit before tax of EUR 30.5 million. The operating result before impairments and provisions achieved in 2014 compared to 2013 is better, primarily due to lower operating costs because of the rationalisation carried out in the distribution network.

Net interest income in 2014 increased by 10% compared with 2013 mainly due to lower interest rates on sources of funds. The volume of deposits in comparison with the previous year rose by EUR 170.4 million or 3.9%, totalling EUR 4,515.8 million. The volume of gross loans compared to the previous year increased by EUR 25.8 million or 1.3%, to stand at EUR 1,958.8 million.

In 2014, the established additional impairments and provisions amounted to EUR 6.9 million. The contribution of the core subsidiaries and joint ventures to the Group result is positive and stable.

## Corporate banking in Slovenia

### Table 10: Result of corporate banking in Slovenia

in EUR million

| | Corporate banking Slovenia | | |
|---|---|---|---|
| | 2014 | 2013 | Growth |
| Net interest income | 58.9 | 46.6 | 26% |
| Net non-interest income | 48.9 | 52.8 | -7% |
| **Total net operating income without extraordinary measures** | **107.8** | **99.5** | **8%** |
| Total costs | -57.7 | -47.7 | 21% |
| **Result before impairments and provisions without extraordinary measures** | **50.2** | **51.8** | **-3%** |
| Extraordinary measures | | -196.0 | - |
| Impairments and provisions | -43.3 | -346.4 | -88% |
| **Result before tax** | **6.9** | **-490.7** | **-** |
| Segment assets | 2,141.4 | 2,419.9 | -12% |
| Segment liabilities | 1,307.2 | 1,307.2 | 0% |

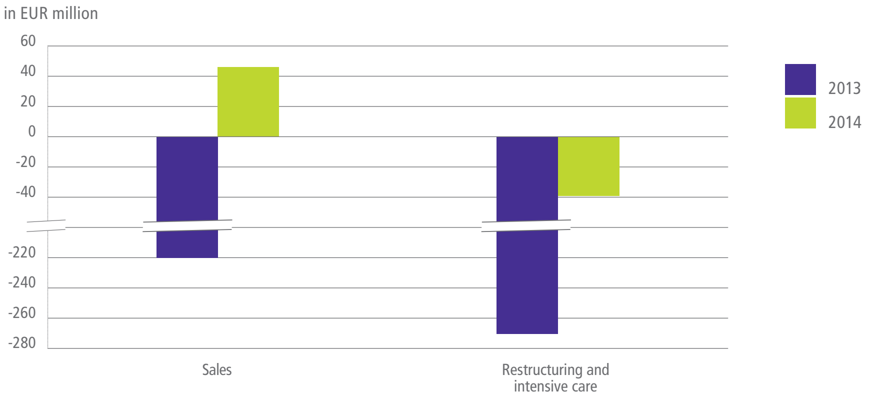
Corporate banking in Slovenia in 2014 generated a profit before tax of EUR 6.9 million. The operating result before impairments and provisions was slightly lower than in the previous year despite the fact that the net income of the segment rose by EUR 8.3 million (excluding the effects of the transfer to the BAMC in 2013).

The higher net interest income is the result of lower interest expenses due to the decline in interest rates on deposits by the non-banking sector. The deposits portfolio decreased by EUR 6.6 million or 0.5% to EUR 1,255.9 million compared to the previous year. The volume of gross loans went down by EUR 281.6 million or 10.1% over the previous year and amounted to EUR 2,512.9 million. The contraction of credit exposure to business customers in core segments was mainly driven by the weak credit demand due to the low economic activity. The active reduction of risk-weighted assets associated with non-core customers in non-core segment has been one of the key elements of implementing the NLB Group's strategy.

Operating costs in this segment were higher in 2014 primarily due to higher volume of allocated costs (overheads and support). Additional loan impairments and provisions in the amount of EUR 43.3 million were formed.

Within the corporate segment, the performing part (managed within the sales division) is operating at a profit (a pre-tax profit of EUR 46.0 million), while the non-performing part operated with a loss although it was significantly lower than in 2013.

### Figure 25: Result before tax of the corporate banking in Slovenia segment



## Financial markets

### Table 11: Result of the financial markets segment

in EUR million

| | Financial markets Slovenia | | |
|---|---|---|---|
| | **2014** | **2013** | **Growth** |
| Net interest income (without ALM) | 41.5 | 26.5 | 57% |
| ALM | 27.9 | 11.1 | 152% |
| Net non-interest income | 25.0 | 12.5 | 101% |
| **Total net operating income without extraordinary measures** | **94.5** | **50.1** | **89%** |
| Total costs | -21.4 | -21.7 | -1% |
| **Result before impairments and provisions without extraordinary measures** | **73.0** | **28.4** | **157%** |
| Extraordinary measures | | 257.6 | - |
| Impairments and provisions | 12.4 | -15.9 | - |
| **Result before tax** | **85.5** | **270.1** | **-68%** |
| Segment assets | 3,416.2 | 3,554.1 | -4% |
| Segment liabilities | 1,677.1 | 2,575.2 | -35% |

In 2014, the NLB Group recorded a profit before tax of EUR 85.5 million in the segment of financial markets resulting from positive effects of the sale of bonds and revenues allocated to this segment as a result of ALM effects.

## Core foreign markets

### Table 12: Results of the core foreign markets segment

in EUR million

| | Core foreign markets | | |
|---|---|---|---|
| | 2014 | 2013 | Growth |
| Net interest income | 103.7 | 90.0 | 15% |
| Net non-interest income | 35.7 | 40.3 | -11% |
| **Total net operating income without extraordinary measures** | **139.4** | **130.3** | **7%** |
| Total costs | -89.6 | -94.7 | -5% |
| **Result before impairments and provisions without extraordinary measures** | **49.8** | **35.6** | **40%** |
| Impairments and provisions | -39.8 | -191.9 | -79% |
| **Result before tax** | **9.9** | **-156.3** | **-** |
| Result of minority shareholders | 2.7 | -0.6 | - |
| Segment assets | 3,337.5 | 3,265.3 | 2% |
| Segment liabilities | 2,883.5 | 2,800.6 | 3% |

The segment of core foreign markets concluded 2014 with profit before tax, including result of minority shareholders, of EUR 9.9 million (a loss before tax of EUR -156.3 million was posted in 2013).

The profit before impairments and provisions was EUR 14.2 million higher than the previous year due to higher net interest income and lower operating costs. In 2014 significantly lower impairments and provisions were formed.

In 2014, the majority of banks were faced with surplus liquidity and limited investment options since the difficult economic conditions persist. They endeavoured to promote the lending activity. In 2014, NLB Tutunska banka, NLB Banka, Tuzla and NLB Prishtina increased the volume of loans extended to the non-banking sector.

## Non-core markets and activities

### Table 13: Result of the non-nore markets and activities

in EUR million

| | Non-core markets and activities | | |
|---|---|---|---|
| | **2014** | **2013** | **Growth** |
| Net interest income | 17.8 | -13.5 | - |
| Net non-interest income | 30.2 | -26.4 | - |
| **Total net operating income without extraordinary measures** | **48.0** | **-39.9** | **-** |
| Total costs | -34.9 | -42.6 | -18% |
| **Result before impairments and provisions without extraordinary measures** | **13.1** | **-82.5** | **-** |
| Extraordinary measures | | -349.0 | - |
| Impairments and provisions | -64.1 | -477.8 | -87% |
| Result from equity investments in associates and joint ventures (equity method) | | -29.1 | - |
| **Result before tax** | **-51.1** | **-938.4** | **-95%** |
| Segment assets | 912.3 | 1,184.8 | -23% |
| Segment liabilities | 124.0 | 146.5 | -15% |

The non-core markets and activities segment recorded a loss of EUR 51.1 million in 2014.

The volume of business in companies that are in the processes of divestment is further decreasing, which is reflected in lower operating costs. In 2014 the segment, in addition to the regular net income, recorded a profit from the sale of non-core equity investments in the amount of EUR 22.8 million. Additional impairments and provisions in the amount EUR 64.1 million were established in 2014.

# 10. Competence centre reports

## Risk management

The NLB Group attaches great importance to the continuous upgrading of the culture and awareness of risks within the overall organisation, with a particular focus on understanding the competence to assume and manage risks. The comprehensive approach to risk management in the NLB Group is based on professional criteria, a holistic assessment of various risk factors, the prudent assumption of risks together with the simultaneous achievement of the set strategic targets and compliance with all regulatory requirements. NLB d.d. has been involved in the Single Supervisory Mechanism as a systemic bank, whereby supervision is under the jurisdiction of the Bank of Slovenia and the ECB.

### Changes in processes and procedures in 2014

In 2014 the NLB Group further upgraded its procedures, processes and control mechanisms in the field of risk management in order to ensure more systematic and objective risk assessment, as well as a faster response to customers. The Group introduced the following additional systems and activities, focusing mainly on the more prudent assumption of risk and more efficient risk management:

- Definition of the Risk Appetite and Risk Strategy at the NLB Group level, defining the level of risk that an organisation is prepared to accept and detailed content-related orientations. In addition, key risk indicators are monitored within the set risk profile on a monthly basis.
- Stricter credit rating methodology, an early warning system in connection with the Watch List Committee and the introduction of a scoring model for customers exposed to up to EUR 100,000 have considerably contributed to the better assessment of credit risk and early detection of distress. As a consequence, the quality of the credit portfolio improved and the downgrading of customers stabilised.
- Credit process continues to be upgraded through additional control activities that are being set up within the Credit Administration unit. Accordingly, control activities will improve within the credit function and the corresponding potential operational risk will decrease.
- Definition and reporting of non-performing exposures (NPE) that according to the internal credit rating methodology encompass D- and E-rated customers and the monitoring of forborne exposures (FBE) and cured exposures, which comply with the EBA requirements.
- The Bank reorganised and increased the headcount of the Restructuring sector, and more precisely defined the customer segments that are undergoing a restructuring process and introduced new criteria for the transfer of customers to Non-Performing Loans Management.
- In the area of NPL management centralised debt collection was introduced for corporate and retail customers and new approaches were added in order to improve debt collection results. The latter is aimed at minimising the loss for the Bank and achieving better debt collection in a shorter time span and at lower costs. The Real Estate Management project introducing the comprehensive management of pledged real estate is nearing completion. Locally adjusted solutions are in use in other members of the NLB Group.
- In order to ensure the more accurate and objective assessment of risk and improve risk management, the Bank set up internal models and other tools, such as the CVaR model[4], the ALM Tool[5], the liquidity scoring model, an upgrade of the database for monitoring loss events, also in connection with monitoring suspected harmful behaviour in the area of market, liquidity and operational risk. There is a constant knowledge flow in place between the Bank and members of the NLB Group.

### Credit risk

Credit risk remains the key risk in the NLB Group. In 2014 the NLB Group continued to implement activities to further reduce the non-performing portfolio, either through intensive care of customers in distress with restructuring and the partial write-off of their obligations, or through debt collection, repossession of collateral, sale of receivables, active marketing of pledged assets and write-offs of irrecoverable debt. A strategy for reducing NPLs in the NLB Group was established. The Bank has a system for the early detection of a deteriorating company's performance. A specialised committee monitors its financial situation and implementation of respective action plans. Further, improvements continue to be introduced in the

[4] "Conditional Value at Risk"; an internal model for monitoring market risk exposures.
[5] "Asset Liability Management Tool, RiskSuit" is an IT tool for monitoring market and liquidity risk exposures in NLB d.d. and the NLB Group.

credit process and risk management culture, in particular in terms of the early, more systematic and in-depth identification of risks. Apart from the new, stricter, credit rating criteria, the major focus is on the development of internal scoring models.

## Other types of risk

In 2014 the liquidity position of the Bank and thus the Group as well improved considerably and is now stable. The restored levels of trust resulted in an increase in retail deposits, which are relatively stable within the NLB Group. The Bank made an early repayment to the Eurosystem and, in late 2014 in order to be able to grant more loans to the Slovenian economy, took part in ECB-targeted longer-term refinancing operations (TLTROs). The Bank successfully issued a three-year unsecured bond in the first half of the year. The portfolio of liquidity reserves in the NLB Group, mainly consisting of prime sovereign bonds that are ECB-eligible, at the end of 2014 amounted to EUR 5.4 billion, of which EUR 5.1 billion is available. The Group's good liquidity position is also indicated by the relatively high values of LCR[6] ratios (514%; in 2015 a required minimum of 60% with progressive enforcement up to a limit of 100%) and NSFR[7] ratios (168%; fulfilment will enter into force in 2018). The NLB Group also pays attention to maintaining adequate structural liquidity with a focus on ensuring a long-term stable share of retail deposits and the proper diversification of funding sources. The Group prepares several worst-case scenarios that take specific bank or system crises in the broader economic environment into consideration.

The NLB Group maintains a conservative market risk policy, which is reflected in its relatively closed positions and relatively low limits and capital requirements. Modern methods and tools are used to monitor exposures and a proactive market risk management approach has been introduced, accompanied by relatively detailed control activities. At the level of the NLB Group and individual non-banking members, some exposures result from structural imbalances or derive from credit risk. Moreover, the possibilities for active risk management are limited in some local markets due to their underdevelopment and the small range of adequate financial instruments available.

Strong emphasis is also given to the management of operational risks, which is constantly upgraded in terms of monitoring quality. The NLB Group regularly monitors and analyses loss events and the number of reported events and recorded net loss slightly increased in comparison to the previous year. Considerable emphasis is given to the reporting of potential loss events, and the identification of operational risks in all areas is regularly carried out. Zero tolerance has been adopted in NLB d.d. for internal and external criminal acts and negligent behaviour. Special importance is attributed to current risks like, for example, the prevention of loss events in the credit process, risks related to the disinvestment of activities and transfer of activities to external contractors, as well as HR administration risks during the process of staff reduction.

Changes to the banking regulations will enter into force next year, stemming from the requirements of the new capital directive and the directive for the rehabilitation and recovery of banks. The NLB Group prepared an evaluation of their effects and started the necessary upgrade. The key changes in the risk area refer to the treatment of capital buffers, introduction of an internal liquidity adequacy assessment process (ILAAP) and activities related to the preparation of overall recovery plans.

## Credit portfolio

The strengthening of economic growth in 2014, which is significantly linked to the positive dynamics of export companies and the partial improvement in the labour market, is resulting in slightly improved macroeconomic circumstances in Slovenia. The consequences of the relatively long-lasting harsh economic conditions are still reflected in the deleveraging of companies in most industries, where the tendency is to obtain long-term sustainable debt and at the same time lower demand for funds to finance new investments. The retail segment also witnessed a reduction in the credit volume, mainly in consumer and card loans, whereas housing loans reveal a slight rise in volume.

Macroeconomic conditions in most of the countries in which the NLB Group members operate were still relatively adverse, which also influenced their operations. The scope of the investment portfolio at the level of the Group thus decreased by 4.2% while, despite the introduced stricter standards in the area of new loan approvals, the quality of credit portfolio slightly improved.

[6] Liquidity coverage ratio.
[7] Net stable funding ratio.

## Table 14: Structure of the risk investment portfolio by client credit ratings[8]

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | NLB d.d. | | NLB Group | | NLB d.d. | | NLB Group | |
| Rating | in EUR million | in % | in EUR million | in % | in EUR million | in % | in EUR million | in % |
| A | 5,497.6 | 56.5% | 7,645.9 | 57.0% | 5,453.3 | 52.1% | 7,630.3 | 54.5% |
| B | 1,202.2 | 12.3% | 1,814.2 | 13.5% | 2,024.4 | 19.3% | 2,145.8 | 15.3% |
| C | 1,262.8 | 13.0% | 980.3 | 7.3% | 1,125.1 | 10.8% | 1,110.0 | 7.9% |
| D | 846.9 | 8.7% | 1,125.4 | 8.4% | 897.9 | 8.6% | 1,290.0 | 9.2% |
| E | 926.4 | 9.5% | 1,838.6 | 13.7% | 963.0 | 9.2% | 1,815.1 | 13.0% |

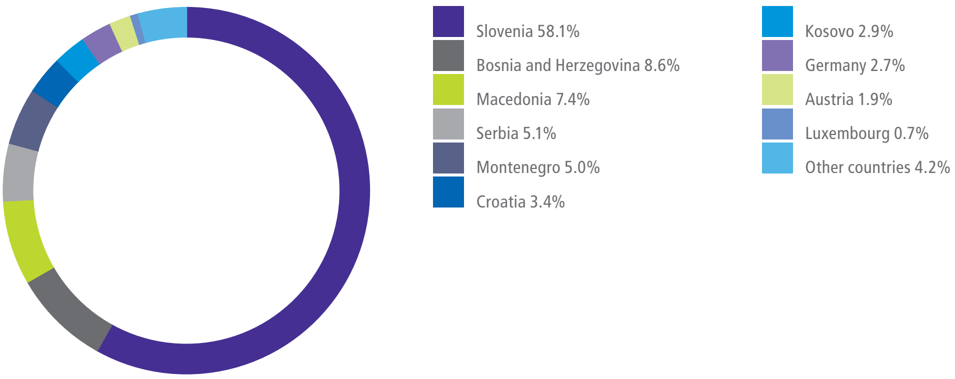
## Table 15: Overview of the high-risk portfolio and impairments and provisions[8]

in EUR million

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | NLB d.d. | NLB Group | NLB d.d. | NLB Group |
| Risk portfolio | 9,735.9 | 13,404.4 | 10,463.6 | 13,997.1 |
| Impairments and provisions for risk portfolio | 1,191.0 | 1,974.2 | 1,272.1 | 2,107.3 |
| Coverage ratio of risk portfolio | 12.2% | 14.7% | 12.2% | 15.1% |
| Credit portfolio | 7,247.9 | 10,552.6 | 7,945.9 | 11,082.0 |
| Impairments for credit portfolio | 1,081.8 | 1,834.0 | 1,177.0 | 1,976.7 |
| Coverage ratio of credit portfolio | 14.9% | 17.4% | 14.8% | 17.8% |
| Non-performing loans (NPL) | 1,535.7 | 2,687.1 | 1,620.4 | 2,837.5 |
| Non-performing loans (NPL) / Total loans | 21.2% | 25.5% | 20.4% | 25.6% |
| Coverage ratio of NPLs with impairments on all loans | 70.4% | 68.3% | 72.6% | 69.7% |
| Coverage ratio of NPLs with impairments on NPL | 57.0% | 61.4% | 57.9% | 63.1% |
| Net non performing loans (NPL) / net total loans* | 10.7% | 11.9% | 10.1% | 11.5% |

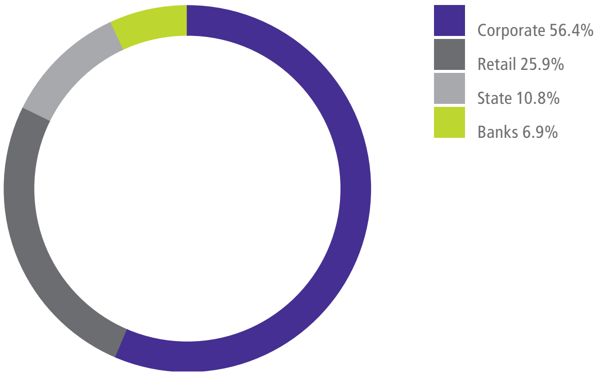
* NPL lowered by impairments for NPL.

## Figure 26: Structure of the NLB Group's portfolio by country




[8] The above illustration has been prepared according to the NLB Group risk assessment approach and requirements of the capital regulation (EU regulation). It presents the entire risk investment portfolio (balance and off-balance sheet exposures) and the credit part of the portfolio. Requirements deriving from the capital regulation differ from those of the IFRS.

Figure 27: Structure of the NLB Group's portfolio by debtor segment




## Management of non-performing loans (NPLs)

At the end of 2014 the volume of non-performing loans was reduced, but its impact on the share is limited by a simultaneous trend to reduce the volume of total loans. The lion's share of non-performing loans is in trade, manufacturing and construction, while the retail segment remains among the less risky groups of customers. The share of non-performing loans in NLB d.d. amounts to 21.2% while the share on the NLB Group level is 25.5%. Taking into account the criterion of net non-performing loans, the share in NLB d.d. is 10.7% while the share at the NLB Group level amounts to 11.9%.

The NLB Group gives a great emphasis to the activities entailed in the further reduction of non-performing loans. However, this is also reflected in the percentage of restructured loans within the structure of the non-performing portfolio. The share of restructured loans increased by 15.3 p.p. (by EUR 197.5 million) at the level of NLB d.d., while at the level of the NLB Group it grew by 11.3 p.p. (by EUR 242.2 million). In accordance with the EBA regulations, the effects of the Bank's activities in the loan restructuring area are not yet reflected in the scope of non-performing loans, as restructured receivables or clients retain NPL status for at least one year after the start of the regular repayment of obligations under the restructured receivables. Thus, we expect that the first noticeable effects of the restructuring carried out in 2014 concerning a decrease in NPLs will be seen in 2015, and a large part of it in 2016. The goal of the NLB Group is to reduce the share of non-performing loans in 2015 to below 20%.

In 2014 NLB d.d. actively approached the management and reduction of non-performing loans. In order to decrease the non-performing loans more effectively, the Bank complemented its internal methodology with a definition of non-performing exposures and restructured exposures for both legal and natural persons in accordance with the EBA definition, and implemented a new concept of real-estate management for the NLB Group. A strategy of non-performing loans management in the period 2015–2017 was also prepared.

The coverage of non-performing loans by individually formed impairments remains relatively high; 57.0% in NLB d.d. and 61.4% at the level of the NLB Group due to specific characteristics of the operations of some non-banking members. The coverage ratio of NPLs by impairments on all loans is lower at NLB d.d. as well as at the level of the NLB Group.

## Restructuring

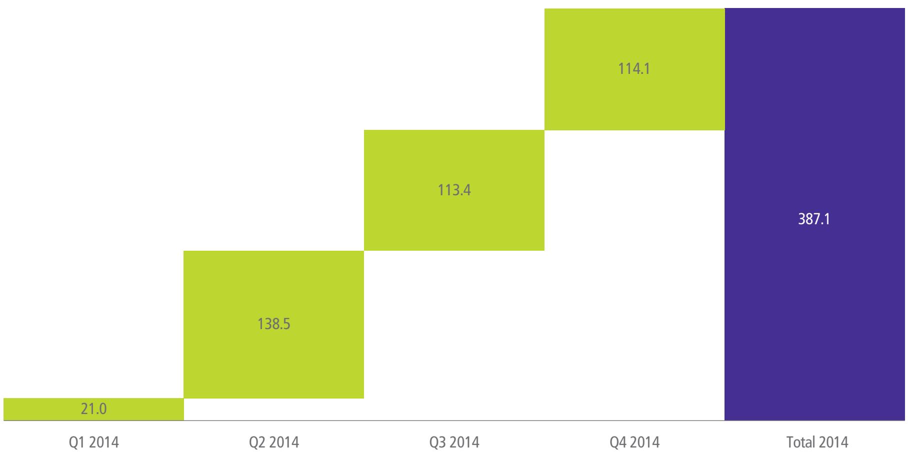
In June 2014 the Bank Association of Slovenia adopted the Slovenian Principles of Corporate Debt Restructuring, thus creating minimum standards for financial organisations to follow when restructuring distressed customers. NLB d.d. was the initiator in the preparation of these principles; however, the effectiveness of NLB d.d. is even more evident in the number of successful restructuring cases and the role NLB d.d. played therein. As a coordinator or agent, NLB d.d. successfully managed more than 43% of restructuring cases, which is considerably more than what its market share (22%) in corporate lending is.

Table 16: Overview of concluded cases in 2014 in NLB d.d.

| Type of agreement | No. of closed agreements | Total NLB d.d. exposure per type of agreement – in EUR million |
|---|---|---|
| Master restructuring agreements | 39 | 400 |
| Restructuring agreements | 15 | 132 |

Year 2014 is also a turning point in the banking regulations relating to the control and restructuring of customers in distress. The European Banking Agency adopted the proposed technical standards for identifying and monitoring distressed customers. These standards introduced a unique set of criteria indicating when an entity is in distress, and also due dates and procedures to be pursued by a bank in order to successfully conclude the restructuring process. These rules are expected to be confirmed by the European Commission in 2015 and are also expected to directly affect the quality of banks' restructuring efforts, and indirectly their entire lending policy.

Figure 28: The value of all completed restructurings in NLB d.d. in 2014 (in EUR million)




The Bank expects that in the future the number of small and medium enterprises in need of restructuring will rise, as well as the number of private individuals with financial issues. With the aim to develop a structural approach to the restructuring of claims against private individuals with financial issues, the Bank centralised the restructuring of private individuals' loans in 2014.

## Funding and liquidity management

After the recapitalisation process in 2013, the Bank's liquidity position has considerably improved. In 2014, NLB d.d. repaid the ECB LTRO funding early and maintained its presence in wholesale markets by issuing a senior unsecured bond. Despite the fall in interests, non-banking sector deposits remain a major funding source and increased in 2014. The great majority of liquidity reserves consist of investment-grade securities, ECB-eligible loans and short-term money market investments.

The tough financial market environment and measures taken by the ECB had a huge impact on the yields of European government securities. In 2014 the yields of government securities decreased by approximately between 150 BP (core government securities) and 300 BP (peripheral government securities, including Slovenia), some short-term securities of core governments even saw negative yields. All of these facts placed the Bank in a difficult position because the matured securities had to be reinvested with significantly lower yields. As a consequence, the Bank earned lower interest income from excess liquidity.

## Liquidity management

To successfully manage liquidity risk, it is important to deliver liquid assets on time, i.e. liquidity reserves to outstanding obligations. The Bank's liquidity reserves comprise cash, funds on account with the central bank, sight and short-term deposits with banks, prime securities and ECB-eligible loans that the Bank may pledge as collateral with the central bank with the aim of securing additional liquidity. The minimal and optimal scope of liquidity reserves is defined on the basis of internal liquidity stress tests performed monthly by Global Risk.

The Bank maintained available liquidity reserves in the amount of EUR 3,867.1 million as at 31.12.2014, while the NLB Group's liquidity reserves totalled EUR 5,159.4 million.

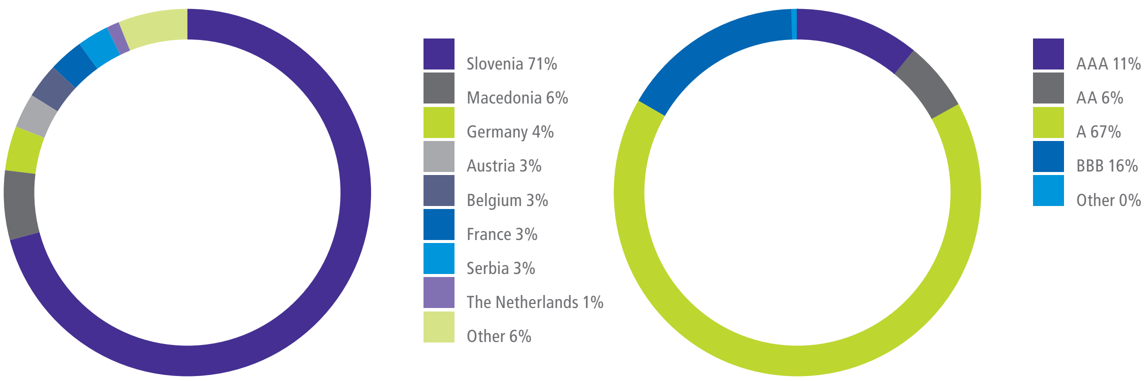
### Table 17: Structure of liquidity reserves

in EUR million

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | NLB d.d. | NLB Group | NLB d.d. | NLB Group |
| Cash, cash balances at central banks and other demand deposits at banks | 434.4 | 1,127.5 | 590.6 | 1,250.6 |
| Placement with banks | 159.3 | 271.3 | 63.4 | 204.1 |
| Trading book securities | 98.1 | 98.1 | 55.4 | 55.4 |
| Banking book securities | 2,571.4 | 3,058.5 | 2,647.1 | 3,164.4 |
| ECB-eligible loans | 864.2 | 864.2 | 820.7 | 820.7 |
| **Total liquid investments** | **4,127.4** | **5,419.7** | **4,177.3** | **5,495.2** |
| Encumbered liquid assets | 260.3 | 260.3 | 1,400.6 | 1,400.6 |
| Unencumbered liquid assets | 3,867.1 | 5,159.4 | 2,776.7 | 4,094.6 |

The balance of debt securities in the NLB Group's banking book, including interest, was EUR 3,058.5 million as at 31.12.2014. Government securities accounted for 84.4% of the mentioned amount, followed by 12.6% of bonds from financial institutions, and corporate securities at 3.0%. In addition, EUR 1,640.1 million (51.9%) of securities was classified as available-for-sale, while EUR 711.6 million (22.5%) was classified as held-to-maturity and EUR 706.8 million (22.4%) of debt securities was classified as loans.

### Figure 29: Geographical and credit rating structure of debt securities in the NLB Group's banking book



## Funding

The improved conditions in financial markets and measures related to stabilisation of the Slovenian banking sector implemented at the end of 2013 enabled NLB d.d. to return to the market. The Bank successfully completed the issue of a three-year senior unsecured bond with a nominal value of EUR 300 million and an annual coupon of 2.875% in July 2014. The bond, which was awarded international ratings BB-/BB- by the rating agencies Fitch and Standard & Poor's is listed on the Luxemburg Stock Exchange. By issuing the bond, NLB d.d. acquired long-term funding and diversified its funding structure. This successful bond issue was the signal of the re-established confidence of investors in NLB d.d., that is also based on the Bank's overall transformation process.

In addition, the Bank borrowed EUR 120 million of long-term funds from the ECB (TLTRO) in December for further lending activities.

Due to the Bank's strong liquidity position in 2014, NLB d.d. undertook activities to optimise its long-term liabilities; consequently, selected credit lines were repaid early.

As at 31.12.2014, the total scope of long-term refinancing of NLB d.d. was EUR 1,036.9 million.

In an effort to harmonise the NLB Group, all borrowings by the Group members on international financial markets are coordinated by NLB d.d., which provides advice to the Group members in their borrowing activities (nevertheless, NLB d.d. aims for the banking members to act independently as much as possible in relation to funding). Due to the divestment of certain NLB Group members, funding for their operations is provided within the NLB Group, which consequently reduces their dependence on outside sources of funding. Despite a decrease in the scope of borrowing by the Group members abroad, in 2014 the Group borrowed a total amount of EUR 16 million (from commercial banks a total amount of EUR 10 million and EUR 6 million from international financial institutions).

As at 31.12.2014, the total scope of long-term NLB Group refinancing was EUR 1,228.6 million.

Like in the past, the NLB Group intends to focus its activities in 2015 on the optimisation of long-term liabilities, monitoring trends and adjusting its activities in financial markets to its funding needs and strategy. The NLB Group will continue to follow the principle of diversifying its funding sources, with an emphasis on refinancing from non-banking sector deposits. The strategic guideline will continue to be the preservation of good relations with key business partners, which will support the possible return to the market, if needed.

### Table 18: Structure of sources of financing

in EUR million

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | NLB d.d. | NLB Group | NLB d.d. | NLB Group |
| ECB funding | 120.0 | 120.0 | 1,266.6 | 1,266.6 |
| Borrowings | 557.1 | 731.4 | 1,031.4 | 1,281.9 |
| Deposits from banks and central banks | 91.1 | 62.3 | 74.2 | 37.4 |
| Deposits from non-banking sector | 6,299.6 | 8,948.5 | 5,747.5 | 8,260.9 |
| Debt securities in issue | 359.9 | 359.9 | 68.8 | 68.8 |
| Other liabilities | 253.1 | 300.8 | 225.4 | 281.6 |
| Subordinated debt | 0.0 | 17.3 | 0.0 | 21.9 |
| Equity | 1,204.9 | 1,369.3 | 1,093.5 | 1,271.0 |
| **Total** | **8,885.7** | **11,909.5** | **9,507.4** | **12,490.1** |

## Human resource management

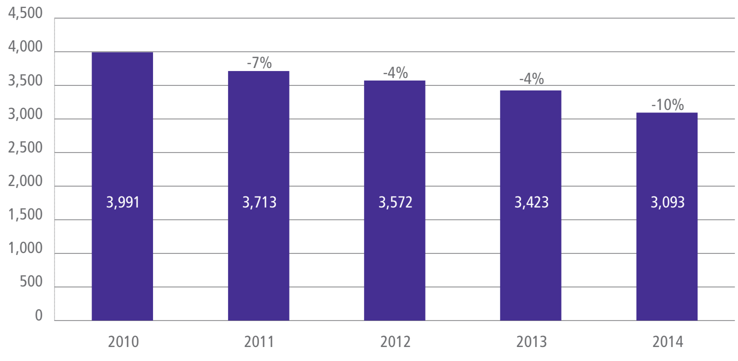
The performance of the NLB Group is based on a modern approach to the management of employees, who are the fundamental source of the competitive advantage, successful performance and reputation of the NLB Group. Development of this HR management area, changes in the Group and in the environment, along with the adoption of new values in the Bank and transformation projects also dictated changes in human resources management in 2014.

To achieve quality and excellence in HR management, the Bank has been assessing the ten key HR processes for the last two years, with the aim of introducing improvements. A comparison with the previous year showed that the quality of HR processes increased by more than one level, on average, which proves that the plans and activities in the area of improvements were successfully implemented. The Bank follows the guidelines of the EFQM[9] excellence model.

The Bank introduced the balanced scorecard system as a strategic planning system used for aligning the activities with the vision and strategy, improving internal and external communications and monitoring the efficiency of implementing the strategic goals. The main purpose of the system is to provide a comprehensive overview of the efficiency of the HR function, measured by the Key Performance Indicators. The Key Performance Indicators, 20 in total, are divided into four sets and defined with a measurable value and specific desired objectives. The measurement of the Key Performance Indicators in 2014 showed that the objectives had been achieved, even exceeded in certain segments, and that the trend of improvements was stable and growing.

In 2014, the Bank continued with the personnel restructuring activities which are reflected in a lower number of employees. Personnel restructuring was also one of the 25 bank transformation projects. The number of employees went down 9.7%, primarily through natural fluctuation and retirements, while one-third of the reduction in employee numbers was carried out through the Redundancy Programme. In doing so, the Bank fully complied with the law and both collective agreements, with an emphasis on reducing the adverse consequences for employees. Special attention was paid to transparent communication and notification activities, the establishment of a Social Programme and other activities and continuous social dialogue with trade unions in the Bank, which resulted in the provision of permanent or temporary employment for a fair number of employees.

Figure 30: Number of employees in NLB d.d. in the period 2010 to 2014




[9] The EFQM Excellence Model is a non-prescriptive framework for organizational management systems, promoted by EFQM (formerly known as the European Foundation for Quality Management) and designed to help organisations in their drive towards being more competitive.

Figure 31: Development of labour costs in NLB d.d. in the period 2010 to 2014

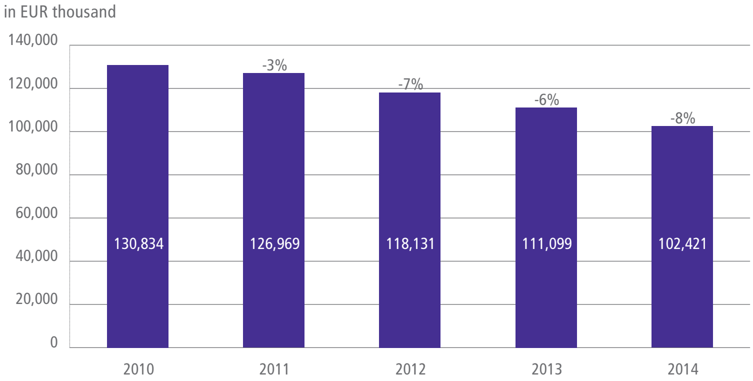
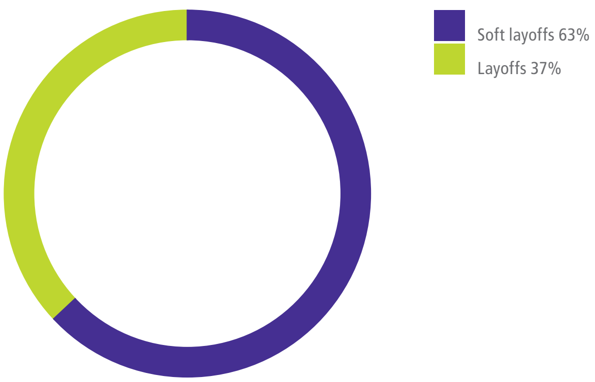



Figure 32: Employee reduction structure in 2014




Education, training and upskilling are part of and provide key support to the planned development of each employee, primarily implemented in the Bank's own Education Centre with a rich tradition, celebrating its 40th anniversary in 2014. The amount of funds spent on training has not been reduced over the last few years. Last year, the Bank was awarded the TOP 10 - Education management 2014 prize that is conferred on organisations which systematically invest in training and education.

In 2014, the Bank successfully completed the project of introducing a new model of assessment and remuneration of performance under which it introduced a system of management by objectives and introduced a model of competencies and development interviews. The change is an important step towards changing the culture of the organisation, namely from a work-oriented to a managed-by-objectives organisation. With this project, the Bank won first prize – the HRM project of 2014 – and a commendation of the Slovenian Quality and Excellence Association.

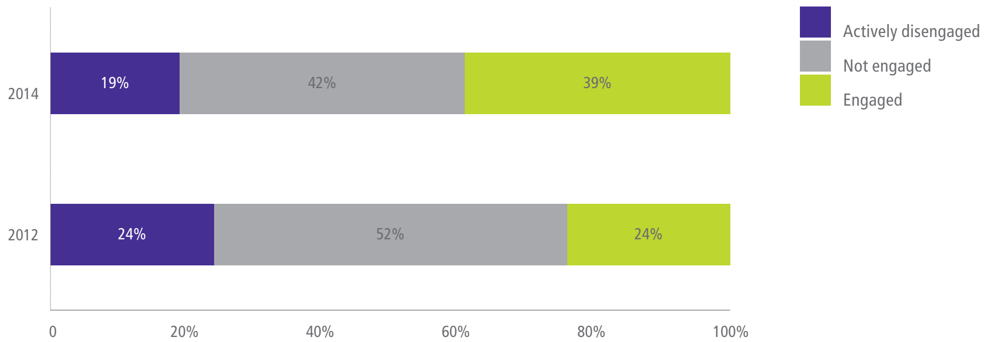
In 2014, the Talent Management project was completed in the scope of which the model of competencies and management by objectives was introduced in all banks and core members of the NLB Group. This marks the starting point for the identification, monitoring and management of all employees, particularly the talented ones. The goal of the project in 2014 was to identify potential successors for at least 30% of key staff in the Group, which was achieved and exceeded, and to establish all other support activities.

In 2014, the Bank measured the organisational climate and compared the result with the results of the past few years and the results of the SIOK[10] (the Slovenian organisational climate project). Key progress was noted in the increase in the level of employee responsiveness. A total of 61% of employees participated in the survey, which is 13 percentage points more than in the previous measurement in 2012. The expert public assessed the responsiveness of NLB d.d. as an above-average result in the present economic climate

[10] The project of research and monitoring of organizational climate in Slovenian organizations.

of the Slovenian business environment. The results of the majority of the surveyed sets of the organisational climate were also improved. The share of commitment increased in all three categories compared to 2012, as presented in the figure 33.

## Figure 33: NLB d.d. employee engagement – a comparison of 2012 to 2014




The Healthy Bank project was introduced in NLB d.d. with the aim of raising awareness among employees about a healthy lifestyle. The Bank also received the full Family-friendly Company certificate conferred by the Ekvilib Institute in cooperation with the Ministry of Labour, Family, Social Affairs and Equal Opportunities.

## Table 19: Key human resource management indicators

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| NLB d.d. employees | 3,093 | 3,423 | 3,572 | 3,713 | 3,991 |
| NLB Group employees* | 6,448 | 6,912 | 7,208 | 7,448 | 7,873 |
| NLB Group employees** | 6,803 | 7,308 | 8,120 | 8,387 | 8,809 |
| Female (in %) | 74.8% | 74.2% | 74.0% | 74.4% | 73.8% |
| Male (in %) | 25.2% | 25.8% | 26.0% | 25.6% | 26.2% |
| Average employee age (in years) | 46.0 | 44.6 | 44.3 | 43.8 | 43.5 |
| Share of employees with at least a higher education (in %) | 51.7% | 50.0% | 46.0% | 46.9% | 41.0% |
| Share of employees with a secondary education (in %) | 45.4% | 47.0% | 51.0% | 49.7% | 55.0% |
| Share of employees with a vocational or lower education (in %) | 2.9% | 3.0% | 3.0% | 3.4% | 4.0% |
| New employees | 35 | 26 | 76 | 22 | 146 |
| Termination of employment | 367 | 173 | 217 | 300 | 205 |
| Share of employees included in training (in %) | 100.0% | 100.0% | 98.1% | 100.0% | 89.8% |
| Training programme participants from NLB d.d. | 27,371 | 22,495 | 22,336 | 19,739 | 15,104 |
| Average length of employee training (in days) | 4.1 | 5.0 | 4.1 | 4.1 | 4.1 |
| Employees with on- and off-the-job training contracts | 84 | 99 | 111 | 129 | 133 |

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

# Information technology

In 2014 key development was focused on supporting the loan-approval processes for corporate as well as private customers, which was also linked to the final implementation of the digitalisation of documents in the sales procedure (branch network).

In 2014 NLB d.d. finished and introduced to its customers a new electronic channel – Klikin, a modern mobile banking application, which will be upgraded into a proper mobile bank in 2015. Besides that, by developing functionalities in the strategic systems the Bank decommissioned 25 legacy applications and thus reduced the complexity of the IT environment.

Retail banking had stable support, several new and modified functionalities were added and operations were optimised. NLB d.d. integrated automated cash register support at the counters, optimised the support for credit-approval processes and introduced additional controls in the implementation of these processes. A redesigned user interface for the Client Register and a new factoring functionality was introduced. The Bank automated and introduced e-support for debt collection and paperless operations (documents are digitalised at the time of generation). In the area of e-banking, the electronic banking for private individuals was adjusted to allow for the use of OTPs (One -Time Passwords) in line with ECB requirements for electronic operations. In the area of credit cards, NLB d.d. successfully introduced contactless cards and started to gradually move towards contactless operations, providing suitable equipment to retailers with Mastercard's support. The Bank continued to replace POS terminals in 2014 to meet the requirements of VISA and MasterCard, and to optimise NLB d.d. ATM network.

In corporate banking, the Bank's key activities were related to renovation of the loan-approval and collateral management process in order to unify and automate the process within the T24 system and integrate the business intelligence solutions in the DWH. In 2014, the Bank continued to optimise activities in collateral management and provide solutions within the receivables' restructuring programme.

In payment services, the Bank is using and managing in-house solutions. NLB d.d. successfully completed the migration to the SEPA payment standards and is regularly fulfilling the requirements for modified reporting, the prevention of money laundering and financing of terrorism. In 2014, the Bank acceded to the project for the harmonisation of domestic and foreign payment solutions support which will be finished in the first half of 2015.

In financial markets, the Bank successfully migrated to the new information system support for brokerage, custody of securities and MiFID archiving in the first half of 2014. Individual portfolio management was migrated to the asset management company NLB Skladi. Support for the issue of mortgage and municipal bonds was upgraded and is now in place should a business need arise. Several information systems were upgraded to meet the requirements of the EMIR regulation.

The data warehouse (DWH) remains the key element of the Bank's information system, which also in 2014 allowed the Bank to efficiently meet all its data requirements for all sorts of reporting. As part of adjustments to the regulatory reporting requirements and the DWH functionalities' upgrade, solutions were updated and introduced to facilitate the preparation of a complex set of data for the AQR, Bank of Slovenia reporting, timely European Banking Authority reporting, improved support for profitability and CRM calculations (introduction of a comprehensive view of a company's operations at the level of the Bank and the NLB Group), assets and liabilities management, new requirements for the prevention of money laundering and financing of terrorism, and renewal of the provisioning system for private individuals. To ensure adequate availability, the DWH-based enquiry accelerator was technically upgraded.

NLB d.d. regularly updates its business continuity plans and recovery procedures for IT support and performs regular testing.

In IT infrastructure, the Bank continued to ensure regular upgrades of all hardware and system software in 2014.

NLB d.d. maintained the high availability of on-line systems in 2014. The level amounted to 99.92% on an annual basis with only 0.03% of non-planned interruptions. This is the highest level of availability over the past five years.

IT investments for 2014 approved at the end of 2013 amounted to EUR 10.9 million, and EUR 4.6 million of that was actually used. The Bank continued its efforts to reduce operating costs in 2014.

## Internal Audit

The Internal Audit of NLB d.d. is an independent and objective advisory function that employs a systematic and professional approach to assess the success of risk management procedures, the control system and the management of the operations of the Bank and the Group. The Internal Audit and all other internal audit departments in the NLB Group work in accordance with the International Standards for the Professional Practice of Internal Auditing, the Banking Act, the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles. It directly reports on its activities to the Management Board, the Supervisory Board and the latter's Audit Committee.

The Internal Audit's primary role is to provide the Bank's Management Board and Supervisory Board with independent and impartial assurance that the areas of the Bank's operations with the highest risk are being managed appropriately. The emphasis of internal auditing is placed on the existence and functioning of the system of internal controls and effective risk management, which is also envisaged by international practice in line with the guidelines of the COSO[11], IC[12] and ERM[13]. Both models represent internal auditing criteria for assessing the control system and risk management.

The audit plan for 2014 was made on the basis of an analysis of risks in all areas of the Bank's operations. For this purpose, the Internal Audit applied its own methodology with a risk-based approach, assuming that its audits would focus on areas of business entailing the highest risk. The audit plan was adopted by the Management Board in agreement with the Supervisory Board. The internal auditors conducted 52 of the 54 planned audits. One audit was transferred to 2015 due to reorganisation and one was cancelled because no activities were planned in 2014 in the respective area.

On the request of the Supervisory Board and Management Board of the Bank, the internal auditors conducted two extraordinary audits in 2014; one in the Bank and the other in a non-bank member of the NLB Group. The latter was initiated by the Bank's Management Board as it suspected fraud and due to the material loss suffered therefrom. The procedure of establishing the potential criminal and damage liability is in progress.

In 2014, auditors from the Internal Audit also participated in internal audits of the NLB Group members, providing additional expert assistance. They mainly participated in crediting, liquidity risk management, NPL management and management of assets taken over, branch network management and IT. The internal auditors also performed other tasks, such as verification of whether audit recommendations had been fulfilled, consultancy, training and assurance of high-quality and professional operations of the internal audit function in the entire NLB Group. The latter was done by implementing uniform rules of operation and supervision of the compliance with these rules (reporting by members, joint audits in members, self-reviews of the quality of the members' internal audit departments, participating in audit committees of the members and providing expert assistance to the Bank's representatives in the supervisory bodies of the NLB Group members etc.).

In addition to providing assurances to the Management Board and the Supervisory Board regarding the management of key risks in the Bank, an important goal of the Internal Audit was to issue quality audit recommendations. Both goals were achieved. Through systemically formulated recommendations the Internal Audit contributed to improvements to the internal control system, the processes and management, and thus helped improve risk management.

In 2014, the Management Board of the Bank continued with its efforts to timely and above all appropriately implement the audit recommendations and thus contributed to the positive trends in this area. The bulk of open tasks relates to the integral credit process overhaul, which will presumably be completed in 2016.

[11] Committee of Sponsoring Organisations of the Treadway Commission.
[12] Internal Control.
[13] Enterprise Risk Management.

## Compliance

For several years now, the Bank has been consolidating the efforts to establish a modern and operational compliance function in order to eliminate and/or limit compliance risks, strengthen corporate ethics and integrity, and prevent fraud and abuse.

In 2014 NLB d.d. became a Corporate Integrity Ambassador with respect to its corporate values. Regulatory compliance, i.e. the compliance of operations with legislation and internal regulations, is vital. This was one of the reasons the Bank signed the Declaration on Fair Business (under the auspices of the UNGC[14]).

A modernised system of handling and responding to suspected fraud and abuse was set up in 2014.

The Bank declared zero tolerance for misconduct, which means that no reasonable suspicion remains uninvestigated.

In 2014 education and training courses were carried out in various forms (e-training, personal presentations, workshops, lectures) which involved more than 95% of the Bank's employees on all levels.

A new Corporate Compliance Code was also drafted and implemented in NLB d.d. in 2014, together with new internal regulations in the area of preventing conflicts of interest, accepting and providing gifts.

NLB d.d. set up and is constantly improving the risk management system in the area of compliance and ethics with regard to the risk of abuse in the financial instruments market, a compliance check of business processes, management of changes in the legal environment, FATCA[15] requirements. All of the above is supported with constant education, training and information. NLB d.d. harmonised the standards in the area of compliance and ethics within the NLB Group.

During the last quarter of 2014, the ECB assumed part of the supervisory competencies for NLB d.d. as a systemically significant bank, which resulted in important changes. NLB d.d. assures a timely, comprehensive response as well as compliance with the regulator's requirements (including the Securities Market Agency).

The prevention of money laundering and the prevention of terrorism financing are important regulatory requirements that require the Bank to expand the scope of its monitoring, control and reporting. Appropriate HR and IT support are being used to help the Bank adapt to the new circumstances.

[14] United Nations Global Compact.
[15] Foreign Account Tax Compliance Act.

# 11. Key events and activities

IMPORTANT EVENTS IN THE BANK'S BUSINESS ENVIRONMENT

KEY EVENTS IN THE NLB GROUP

## January 2014

Standard & Poor's affirms Slovenia's sovereign credit rating A- with stable outlook (17.1.2014).

The International Monetary Fund issues the final report of the October mission to Slovenia with the projection of contraction of GDP for 1.1% in 2014 and a note that a comprehensive bank and corporate restructuring is essential to achieve financial stability, fiscal and debt sustainability, and durable growth (17.1.2014).

Moody's affirms Slovenia's sovereign credit rating Ba1 and changed the outlook from negative to stable (24.1.2014).

The Management Board of NLB d.d. adopts a Resolution finding that the need for a large number of employees is permanently terminated for business reasons covering 141 employees with different jobs in order to optimise the Retail Network (21.1.2014).

NLB d.d. closes the Representative Office Moscow (31.1.2014).

NLB d.d. in cooperation with nine banks signs a MRA restructuring agreement with Trimo. NLB d.d. acts as a coordinator and an agent (31.1.2014).

## February

The Republic of Slovenia issues 5 and 10 year maturity bonds in total amount of USD 3.5 billion (10.2.2014).

The European Commission issues forecast of economic trends for Slovenia with contraction of GDP for 0.1% in 2014 and 1.3% growth in 2015 (25.2.2014).

The European Bank for Restructuring and Development adopts new strategy for Slovenia, which provides for a strong engagement of the Bank in the country in the period 2014 - 2017 (26.2.2014).

NLB d.d. successfully issues 12 month commercial papers on behalf of GEN-I in the amount of EUR 35 million (10.2.2014).

The Management Board and the Supervisory Board of NLB d.d. approve the new Strategy of the NLB Group 2014 - 2018 (28.2.2014).

NLB d.d. transfers asset management activities to the subsidiary NLB Skladi (28.2.2014).

## March

The European Commission publishes the results of in-depth reviews of the economic situation in the euro zone. Excessive macroeconomic imbalances were found for Slovenia that require monitoring and further decisive policy measures (5.3.2014).

The Institute of Macroeconomic Analysis and Development issues its Spring economic forecast. The institute forecasts 0.5% growth of GDP in 2014 and 0.7% growth in 2015 (14.3.2014).

NLB d.d. successfully issues first edition of 9 month commercial papers on behalf of Telekom Slovenia in the amount of EUR 50 million (10.3.2014).

The Management Board of NLB d.d. adopts a Resolution finding that the need for a large number of employees is permanently terminated for business reasons covering 88 employees with different jobs (18.3.2014).

NLB d.d. successfully issues fifth edition of 6 month commercial papers on behalf of Petrol in the amount of EUR 50 million (24.3.2014).

## April

The Republic of Slovenia issues 3.5 year and 7 year bonds in total amount of EUR 2 billion (1.4.2014).

The Bank of Slovenia forecasts 0.6% growth of GDP in 2014 and 1.4% growth in 2015 (8.4.2014).

The International Monetary Fund forecasts for Slovenia 0.3% growth of GDP in 2014 and 0.9% growth in 2015 (8.4.2014).

The Government of the Republic of Slovenia adopts the National Reform Programme 2014 – 2015, one of its goals being a re-established stability of the banks that received state aid (15.4.2014).

The Act Amending the Public Information Access Act enters into force, obligating banks, recipients of state aid, to publish on their web pages data regarding the bank's representatives, members of the management and supervisory bodies, as well as the basic data related to concluded deals which are considered public information, and to provide public information to those who request it (17.4.2014).

Argo (75% shares are owned by NLB d.d.) and Huliot sign a contract on the transfer of the company and a contract on renting the commercial premises with a purchase option (2.4.2014).

NLB d.d. participates in sales procedure of Helios shares to the company Ring International Holding as a lien holder with 18% equity stake (3.4.2014).

NLB d.d. publishes the publication of the new Code of Corporate Compliance (5.4.2014).

The Supervisory Board of NLB d.d. accepts the resignation of France Arhar from the position of President of the Supervisory Board, with immediate effect (17.4.2014).

The European Central Bank launches EBA stress test exercise in selected banks, including NLB d.d. as one of the participating bank (29.4.2014).

NLB d.d. in cooperation with seventeen banks signs a MRA restructuring agreement with Pivovarna Laško Group. NLB d.d. acts as a coordinator and an agent (30.4.2014).

Ratings
Macroeconomic forecasts
Key business activities of the NLB Group
Other events and activities

Fitch affirms Slovenia's sovereign credit rating BBB+, but changes the outlook from negative to stable (2.5.2014).

11$^{th}$ Government of the Republic of Slovenia led by Alenka Bratušek resigns (5.5.2014).

The Organization for Economic Cooperation and Development forecasts 0.3% GDP growth for Slovenia in 2014 (6.5.2014).

The European Bank for Reconstruction and Development forecasts for Slovenia zero GDP growth in 2014 (14. 5. 2014).

Members of the European Union conduct their elections for Members in the European Parliament (25.5.2014).

# May

NLB d.d. and Steklarna Hrastnik sign the financing contract in the amount of EUR 6.4 million (12.5.2014).

NLB d.d. completes the transfer of documentation and business custody of assets to The Bank Asset Management Company (13.5.2014).

Gorazd Podbevšek nominated as the Chairman of the Supervisory Board of NLB d.d. (16.5.2014).

The European Commission approves the appointment of KPMG as a Monitoring trustee of NLB d.d. and terms of its mandate (26.5.2014).

NLB d.d. organises a professional management event on international business for its customers. The event is attended by over 200 representatives of companies from all over Slovenia (28.5.2014).

The Government of the Republic of Slovenia and the Government of the USA sign an agreement to enhance compliance with tax regulation on international level and implementation of FATCA, which comes into force 1.7.2014 (2.6.2014).

The European Commission publishes 8 recommendations for Slovenia to eliminate excess macroeconomic imbalances, including the recommendation on restructuring plan for the banks that received state aid and the necessary consolidation of the banking system (2.6.2014).

The European Central Bank reduces the key interest rate by 10 p.p. to 0.15% (11.6.2014).

Standard & Poor's affirms Slovenia's sovereign credit rating at A-, but changed the outlook from stable to negative (27.6.2014).

# June

Due to the fact that NLB d.d. decided not to participate in the recapitalisation of Adria Bank, it no longer owns an equity share in the bank (5.6.2014).

The Management Board of NLB d.d. approves restructuring plans in NLB banka, Belgrade and NLB Montenegrobanka (9.6.2014).

NLB d.d. and other banks creditors sign a MRA restructuring agreement with Mercator Group (9.6.2014).

Standard & Poor's gives NLB d.d. BB- long-term credit rating and B short-term credit rating with a negative outlook (10.6.2014).

The Management Board of NLB d.d. adopts a Resolution finding that the need for a small number of employees is permanently terminated for business reasons covering 24 employees with different jobs (24.6.2014).

End of the sales procedure for 11% of Mercator shares to the company Agrokor (26.6.2014).

NLB d.d. signs syndicated facility in the amount of EUR 55 million with Gorenje. NLB d.d. acts as an organizer and an agent (26.6.2014).

Public Information Access Act, amendment (ZDIJZ – D), obligating banks, recipients of state aid, to disclose non-performing loans per 20. December 2013, which haven't been transferred to the Bank Asset Management Company, within three months from publication of the act (4.7.2014).

Slovene parliamentary election (13.7.2014).

Grand Chamber of the European Court of Human Rights in Strasbourg declares that Slovenia and Serbia violated the right to protection of assets and to efficient judicial remedy of the savers of LB or Investbanka in BIH (16.7.2014).).

# July

23$^{rd}$ session of NLB d.d. Shareholders Assembly, in which the rights of the Republic of Slovenia as the sole shareholder of the bank represents by the Slovene Sovereign Holding (1.7.2014).

NLB d.d. successfully completes a three-year unsecured bond issue in the amount of EUR 300 million with a coupon of 2.875% p.a. (3.7.2014).

Fitch keeps NLB d.d. rating for short-term and long-term debt at BB-, and the outlook remains negative (9.7.2014).

For the sixth year in a row, NLB d.d. is awarded by Deutsche bank for the achieved high level of Straight Through Processing in processing commercial payments to their bank (23.7.2014).

NLB d.d. begins with the process of exiting from the 10% ownership of the company Kolektor Group (25.7.2014).

20$^{th}$ anniversary of the establishment of NLB d.d. (27.7.2014).

The European Commission approves the recapitalisation plan of Abanka Vipa in the amount of EUR 243 million (13.8.2014).

The Statistical office of the Republic of Slovenia issues an encouraging assessment of 2.9% (annual) and 1.0% (2nd quarter) economic growth (29.8.2014).

# August

Moody's improves the Slovene banking sector outlook for the following 12-18 months from negative to stable (Ba1) (8.9.2014).

The European Central Bank reduces the key interest rate by 0.10 p.p. to 0.05% (10.9.2014).

The 12th Government of the Republic of Slovenia confirmed under the leadership of Miro Cerar (18.9.2014).

The European Bank for Reconstruction and Development predicts 0.7% growth of GDP for Slovenia in 2014 (18.9.2014).

In its latest projections of macroeconomic trends, the Bank of Slovenia predicts 1.6% growth of GDP in 2014, and 1.3% growth in 2015 (23.9.2014).

The Institute of Macroeconomic Analysis and Development predicts in their autumn projection of economic trends 2.0% growth of GDP in 2014 and 1.6% growth in 2015 (25.9.2014).

The Government of the Republic of Slovenia consents to transfer bad claims from Abanka Vipa to the Bank Asset Management Company (26.9.2014).

## September

NLB d.d. establishes PRO - REM, a company for real estate management (15.9.2014).

NLB d.d. files an initiative for a constitutional review of the Public Information Access Act amendment (ZDIJZ - D) and a proposal for a temporary suspension of the contested provisions of this amendment (22.9.2014).

Nima Motazed, member of the Management Board of NLB d.d. responsible for operations (COO), submits a letter of resignation with a 3 months notice (24.9.2014).

The Managers' Association awards NLB Vita with “Lady Managers friendly company” award for the year 2014 (25.9.2014).

20th anniversary of the establishment of Teledom (27.9.2014).).

The Constitutional Court of the Republic of Slovenia adopts a decision to temporarily suspend the execution of the Public Information Access Act amendment (ZDIJZ - D) in the part which instructs the state-owned banks to publish on-line the data on non-performing loans towards debtors as of 20 December 2013 (2.10.2014).

The International Monetary Fund forecasts 1.4% increase of the Slovenian GDP in 2014, the same increase is expected for year 2015 (7.10.2014).

The Bank Asset Management Company issues government-backed bonds with a total face value of EUR 424.6 million, to pay for the non-performing assets acquired from Abanka Vipa (20.10.2014).

The European Parliament approves new European Commission, led by Jean-Claude Juncker. Commissioner from Slovenia Violeta Bulc is responsible for transport (22.10.2014).

The European Central Bank announces stress tests of 130 European banks which have been reviewed. 25 of them would not have survived stress tests in the event of adverse scenario (26.10.2014).

The Republic of Slovenia issues 7 year bonds in total amount of EUR 3.2 billion (28.10.2014).

## October

NLB d.d. successfully completes a five-year bond issue on behalf of Gorenje in the amount of EUR 73 million (11.10.2014).

NLB d.d. signs the Slovene Corporate Integrity Guidelines (14.10.2014).

NLB d.d. signs syndicated facility in the amount of EUR 20 million with Cimos. NLB d.d. acts as an organizer and agent (16.10.2014).

NLB d.d. ranks again among the 10 best Slovene organisations that strategically invest in employee education and training (22.10.2014).

NLB d.d. is the first bank in Slovenia to introduce contactless card payments MasterCard (23.10. 2014).

The European Central Bank publishes the results of stress tests, according to which NLB d.d. shows a minor lack of capital in an adverse scenario. The missing capital will be assured from the profit made in the current business year (26.10.2014).

NLB d.d. sells its 3.03% share in the company Petrol (30.10.2014).

The ECB introduces a single supervisory mechanism (SSM) and thus takes over direct control over 120 systemic European banks (4.11.2014).

The European Commission forecasts 2.4% GDP growth for Slovenia in 2014 and 1.7% growth in 2015 (4.11.2014).

The Organization for Economic Cooperation and Development forecasts 2.1% GDP growth for Slovenia in 2014 and 1.4% growth in 2015 (25.11.2014).

## November

Peter Groznik nominated as a member of the Supervisory Board at the 24th Shareholders Assembly of NLB d.d. (3.11.2014).

The European Central Bank introduces a single supervisory mechanism (SSM) and thus takes over direct control over systemic European banks, including NLB d.d. (4.11.2014).

NLB d.d. takes first place for the 2014 HRM project at the 17th HRM conference (7.11.2014).

NLB d.d. redesigns its web portal in line with modern trends (13.11.2014).

40th anniversary of the Education Centre of NLB d.d. (17.11.2014).

The first tenants for the five locations, intended for this purpose, are chosen within the NLB Innovative Entrepreneurship Centre project (19.11.2014).

NLB d.d. successfully completes a five-year bond issue on behalf of Slovenska industrija jekla in the amount of EUR 43 million (24.11.2014).

NLB Tutunska banka receives the award for the best bank in Macedonia for 2014, awarded by The Banker magazine (27.11.2014).

NLB Nov penziski fond AD Skopje awarded “The Best Pension Fund in Central and East Europe 2014” awarded by the Investment & Pensions Europe magazine (28.11.2014).

IEDC Bled in cooperation with NLB d.d. organises the 27th presidential forum IEDC Bled. The common thread is how to design and implement a business strategy (28.11.2014).

Standard & Poor's changes Slovenia's outlook from negative to stable and affirms Slovenia's long- and short-term sovereign credit rating at A-/A-2 (19.12.2014).

The Institute of Macroeconomic Analysis and Development forecasts 2.5% growth of GDP in 2014 (24.12.2014).

## December

The Management Board of NLB d.d. adopts a Resolution finding that the need for a small number of employees is permanently terminated for business reasons in IT Operations (3.12.2014).

NLB d.d. renovates the first branch office (branch office Borovnica), in accordance with the new concept of branch (7.12.2014).

NLB d.d. becomes the 51st party to the Declaration for Honest Business (8.12.2014).

NLB d.d. obtains a full Family Friendly Enterprise certificate (10.12.2014).

The Supervisory Board of NLB d.d. accepts the resignation of Goran Katušin from the position of the Member of the Supervisory Board (12.12.2014).

Due to the fact that NLB d.d. decided not to participate in the recapitalisation of Banka Celje it no longer owns an equity share in the bank (16.12.2014).

Fitch affirms long-term credit rating BB for NLB d.d. with negative outlook (29.12.2014).

IMPORTANT EVENTS IN THE BANK'S BUSINESS ENVIRONMENT

KEY EVENTS IN THE NLB GROUP

## January 2015

The Government of the Republic of Slovenia increases tax on financial services for 2 p.p. to 8.5% (1.1.2015).

The Swiss National Bank abandons currency ceiling at 1.2 franc to 1 EUR (15.1.2015).

The European Bank for Restructuring and Development estimates that the GDP growth for Slovenia was 2.7% in 2014 and forecasts a 1.6% growth in 2015 (19.1.2015).

The Government of the Republic of Slovenia hands over to the Council of Europe the action plan for the implementation of the judgement of the European Court of Human Rights, which in year 2014 imposed Slovenia to repay the foreign-currency savers of the former Ljubljanska banka (20.1.2015).

The European Central Bank initiates the so-called quantitative easing programme, within which it will buy ABC, sovereign and covered bonds in the amount of EUR 60 billion per month by the end of September 2016 (22.1.2015).

Moody's improves Slovenia's sovereign credit rating from Ba1 to Baa3 with stable outlook (24.1.2015).).

NLB d.d. in cooperation with seven banks signs a MRA restructuring agreement with Hidria Group. NLB d.d. acts as a coordinator and an agent (20.1.2015).

## February

The European Commission forecasts 1.8% GDP growth for Slovenia in 2015 and 2.3% growth in 2016 (5.2.2015).

The Institute of Macroeconomic Analysis and Development forecasts 2.0% growth of GDP in 2015 (9.2.2015).

The Statistical office of the Republic of Slovenia estimates that the GDP growth for Slovenia was 2.6% in 2014 (27.2.2015).

NLB d.d. signs syndicated facility in the amount of EUR 67 million with KD Group. NLB d.d. acts as an organizer and an agent (23.2.2015).

## March

The European Central Bank begins to purchase bonds from states and other institutions on the secondary market, initiating the programme of the so-called quantitative easing (9.3.2015).

The Constitutional Court unanimously annuls the provisions of the Public Information Access Act, which imposes the nationalised banks to reveal the data on non-performing loans that had not been transferred to Bank Assets Management Company (16.3.2015).

The Republic of Slovenia issues 20-year bonds in the amount of EUR 1 billion (18.3.2015).

NLB d.d. terminates contractual relationship with Moody's. Further on, Moody's maintains the rating solely based on publicly available information (5.3.2015).

Moody's affirms NLB's deposit ratings of Caa1 and places rating under review for upgrade (17.3.2015).

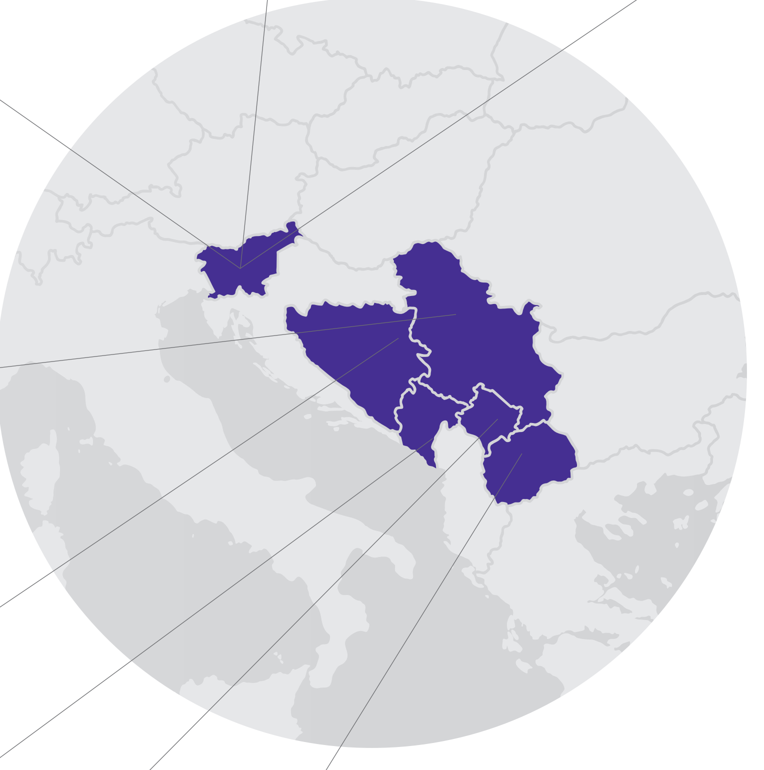
# 12. The NLB Group governance

## Map of countries where core members of the NLB Group operate (data on a standalone basis)

| | NLB d.d., Ljubljana |
|---|---|
| Number of branches | 121 |
| Number of employees | 3,093 |
| Market share (in %) | 22.9 |
| Number of clients | 730,790 |
| Total assets (in EUR million) | 8,886 |

| | NLB Skladi, Ljubljana |
|---|---|
| Number of employees | 40 |
| Market share (in %) | 21.8 (mutual funds) |
| Assets under management (in EUR million) | 778 |

| | NLB Vita, Ljubljana |
|---|---|
| Number of employees | 41 |
| Market share (in %) | 10.1 |
| Assets of cover funds without own resources (in EUR million) | 331 |



| | NLB banka, Belgrade |
|---|---|
| Number of branches | 32 |
| Number of employees | 421 |
| Market share (in %) | 1.1 |
| Number of clients | 181,807 |
| Total assets (in EUR million) | 244 |

| | NLB Razvojna banka, Banja Luka | NLB Banka, Tuzla |
|---|---|---|
| Number of branches | 65 | 38 |
| Number of employees | 490 | 430 |
| Market share (in %) | 17.4* | 5.8** |
| Number of clients | 314,135 | 121,284 |
| Total assets (in EUR million) | 605 | 462 |

* Market share in the Republic of Srpska ** Market share in the Federation of BiH

| | NLB Montenegrobanka, Podgorica |
|---|---|
| Number of branches | 17 |
| Number of employees | 326 |
| Market share (in %) | 17.0 |
| Number of clients | 71,247 |
| Total assets (in EUR million) | 511 |

| | NLB Prishtina, Prishtina |
|---|---|
| Number of branches | 47 |
| Number of employees | 525 |
| Market share (in %) | 15.6 |
| Number of clients | 224,601 |
| Total assets (in EUR million) | 464 |

| | NLB Tutunska banka, Skopje |
|---|---|
| Number of branches | 49 |
| Number of employees | 802 |
| Market share (in %) | 16.3 |
| Number of clients | 316,693 |
| Total assets (in EUR million) | 1,046 |

| | NLB Nov penziski fond, Skopje |
|---|---|
| Number of employees | 30 |
| Market share of compulsory pension insurance (in %) | 47.6 |
| Market share of voluntary pension insurance (in %) | 37.7 |
| Net value of pension funds (in EUR million) | 253 |

## Presentation of the NLB Group

The NLB Group is the largest Slovenian banking and financial group, and at the same time the biggest banking and financial group operating in the Western Balkans oriented to those markets exclusively. NLB d.d. as the parent company of the NLB Group is 100% owned by the Republic of Slovenia. The NLB Group consists of NLB d.d., other 6 banks and 38 companies. The main business activity of the NLB Group is banking, complemented by other financial activities such as leasing, factoring, insurance and asset management.

Striving for a sustainable performance, in 2013 the NLB Group identified its core operations considered as strategic; i.e. those that make the Group competitive and where it would like to be even more successful. The remaining operations were considered non-core and are expected to be gradually exited from. A clear definition of both segments sets the framework for achieving the goals of the two parts of the Group.

The classification of the Group members into core and non-core is based on the following principles:
- realistic expectations regarding the market position that a company can gain, positioning it as one of the leading service providers in a particular market or segment from the aspect of its relative profitability;
- the ability to be self-sustaining with regard to liquidity and capital;
- the complementary nature of products with standard banking products and possibly greater added value for customers; and
- the market development potential for creating added value and adequate returns with an acceptable risk appetite.

Based on these principles, the core activities of the NLB Group are mainly banking, asset management, and life and pension insurance. Its key market is Slovenia where the Group generates the majority of its revenues. Other core markets are those where its banks are located; i.e. Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia. In these markets, the Group continues to search for synergies, consolidating and streamlining the operations of the NLB Group members.

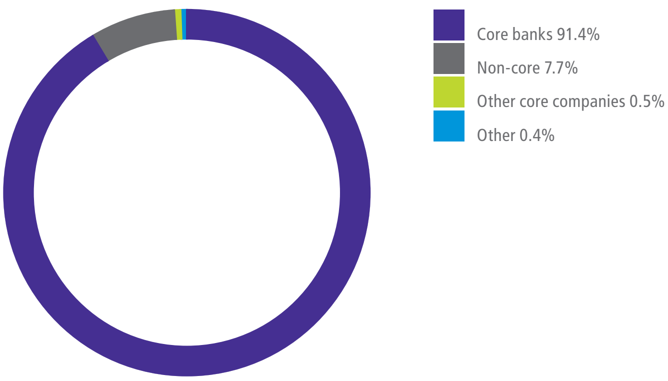
Leasing and factoring as well as many other financial companies, including both affiliated banks (Banka Celje and Adria Bank) and the Trieste Branch, have been defined as non-core. Banka Celje and Adria bank were both recapitalised in 2014; in line with the commitments given to the European Commission by the Republic of Slovenia, NLB d.d. did not participate in the capital increase. As a result, the Bank no longer has an equity share in these two banks and at the end of 2014 the two banks were not the NLB Group members anymore.

The NLB Group is exiting from the non-core markets in Bulgaria, Croatia, the Czech Republic, Germany, Italy and Switzerland.

Table 20: Structure of the NLB Group core and non-core activities

| Core activities | Non-core activities |
|---|---|
| 7 banks | 8 leasing companies |
| 3 insurance companies | 6 factoring companies |
| 1 asset management company | 13 companies performing other activities |
| 7 companies performing other activities | |

Figure 34: Structure of the NLB Group total assets – core vs. non-core (EUR 11,909.5 million as at 31.12.2014)



## Core activities

### Banking

All the banks in the NLB Group operate as universal, commercial banks. Despite their relative size, the banking members of the Group are system-important banks in all the markets, with a high reputation and spare capacity to improve their market position with regard to their relative profitability (you can find their identity card on the inside of the front cover), with the exception of NLB banka, Belgrade and NLB Banka, Tuzla. They are operating in the following markets:

### Slovenia

As the leading bank in the Slovenian banking system, **NLB d.d.** is the largest company in the NLB Group, providing almost 70% of its total assets.

### Macedonia

**NLB Tutunska banka** has been part of the NLB Group since 2000. It is the third largest bank in the Macedonian banking system according to total assets and one of the best-performing members of the Group measured by profit. In 2014, it received the best Macedonian bank award for the seventh time in a row, awarded by The Banker.

### Bosnia and Herzegovina

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

**NLB Razvojna banka** has the largest branch network in the Republic of Srpska. It is the second largest bank in the Republic of Srpska according to total assets. It has operated as part of the NLB Group since 2005.

**NLB Banka, Tuzla** has a more than a 100-year-long tradition in banking services in the Federation of Bosnia and Herzegovina. According to total assets, it is the seventh largest bank in the Federation of Bosnia and Herzegovina. It has operated as part of the NLB Group since 2005.

### Kosovo

**NLB Prishtina** ranks third in Kosovo according to total assets. The NLB Group has been present in Kosovo since 2007.

### Montenegro

**NLB Montenegrobanka** continues the tradition of its predecessor, Crnogorska banka, which was established more than 100 years ago (19.7.1905). The bank has been part of the NLB Group since 2003. Since the merger with Euromarket banka, it is the second largest financial institution in Montenegro.

### Serbia

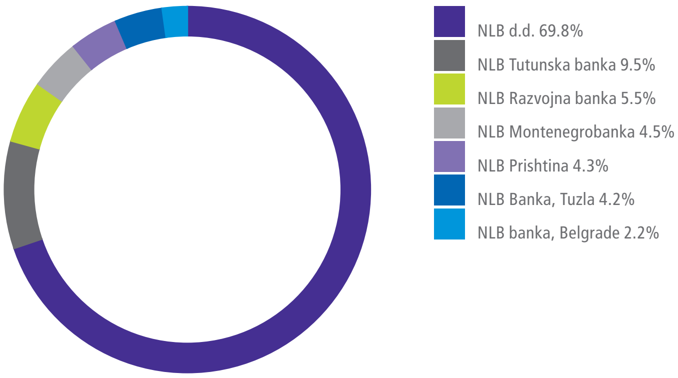
**NLB banka, Belgrade** has been part of the NLB Group since 2005. At the end of 2008, LHB banka Belgrade was also merged. With regard to its market share, NLB banka, Belgrade is a small bank in the Republic of Serbia.

Table 21: Sum of bank members of the NLB Group

| | Core banks |
|---|---|
| Number of branches | 369 |
| Number of employees | 6,087 |
| Number of clients | 1,960,557 |
| Total assets (in EUR million)* | 10,886 |

*Contribution to the total assets of the NLB Group.

Figure 35: Total assets of the core banking operations in the NLB Group per bank (EUR 10,886.4 million at the end of 2014)




## Non-banking activities

### Asset management

**NLB Skladi** is a leading Slovenian provider of investment fund management. At the beginning of 2014 the company took over the management of individual portfolios on behalf of private banking clients from NLB d.d. The company successfully collaborates with NLB d.d. Slovenian branch network, which represents the company's main distribution channel. Throughout 2014 the company strengthened its position in the market and continues to be an important pillar of the growth of the fee-income base in the NLB Group.

### Life and pension insurance

**NLB Vita** is 50% owned by NLB d.d. (the remaining 50% is owned by the Belgian KBC Group). It is the leading bank assurance company in the Slovenian life insurance market. It was the fastest growing insurance company of all classic life assurance companies in 2014, with its 25% growth in collected premiums. NLB d.d. branch network in Slovenia represents the company's main distribution channel.

**NLB Nov penziski fond** offers compulsory and voluntary pension insurance in Macedonia. It holds a 47.6% market share in terms of the number of policyholders of the compulsory pension fund, and a 37.7% market share in terms of the voluntary pension fund. The company received an award for the best pension fund in Central and Eastern Europe in 2014 by the Investment & Pensions Europe magazine.

**Skupna pokojninska družba** is an affiliated member of the NLB Group. It is one of the largest providers of supplementary voluntary pension insurance in Slovenia among pension insurance companies. It holds an 18.6% market share in Slovenia in terms of funds collected and a 20.6% market share in terms of the number of policyholders.

## Non-core activities

Non-core operations in NLB d.d. are steered from three sectors, overseeing the structured divestment of the non-core portfolio and a wind-down process of non-core companies:
- Management of leasing, factoring and equity investments in companies obtained in corporate financial restructuring processes;
- Management of exposures of NLB d.d. to non-core clients in Slovenia and to clients outside Slovenia;
- Area Branch Trieste which is expected to be closed in 2015.

### Leasing

The leasing companies manage assets booked in Slovenia, Croatia, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia. In line with the Strategy and the Republic of Slovenia's commitments given to the European Commission, all the leasing companies are mainly focusing on managing and recovering the existing portfolio. NLB Leasing, Ljubljana is still active to a certain extent in serving Slovenian clients with leasing products for movable assets (mostly vehicles). To allow for more focused management of the portfolio of repossessed real estate of NLB Leasing, Ljubljana, a major part of the real-estate leasing portfolio was spun-off in September 2014 to a newly established entity called PRO-REM d.o.o.

### Factoring and financial institutions

NLB InterFinanz, Zürich (with branch offices in Ljubljana, Prague and Belgrade) is exclusively focused on the management and recovery of the existing portfolio, aiming to wind-down the operations in an organised manner. A former similar operation, NLB Factoring, Ostrava, has already been put into formal liquidation.

NLB d.d. owns 50% of Prvi Faktor, Ljubljana, which has subsidiaries in Bosnia and Herzegovina, Croatia, and Serbia and Macedonia (the other 50% is owned by SID bank).

### Equities

NLB d.d. largely reduced its portfolio of equity stakes in 2013 and 2014, already meeting the EC commitments given by the Republic of Slovenia referring to the allowed exposure.

Figure 36: Total assets of the non-core activities of the NLB Group (EUR 912.3 million at the end of 2014)

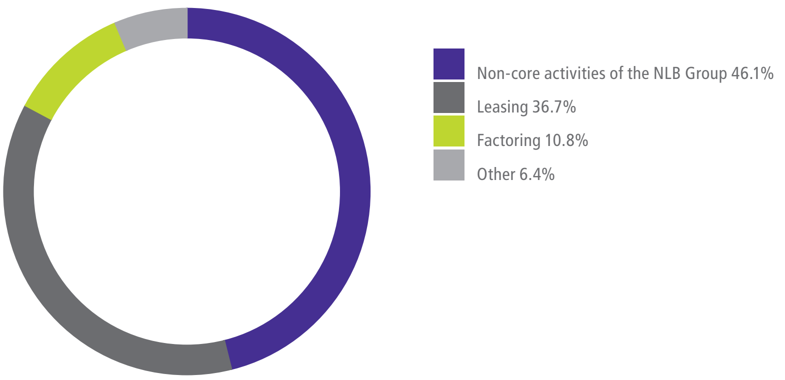


Figure 37: Structure of total assets of the NLB Group per type of entity (EUR 11,909.5 million at the end of 2014)

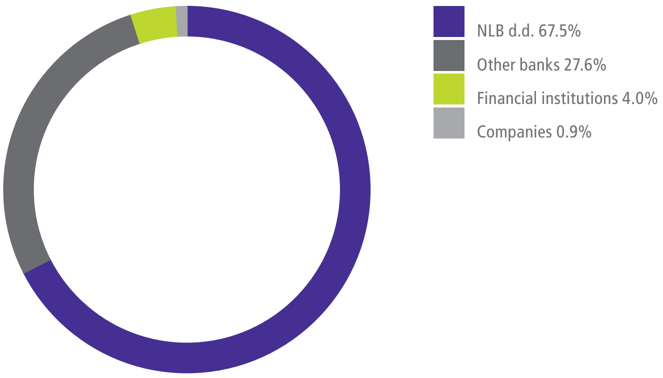
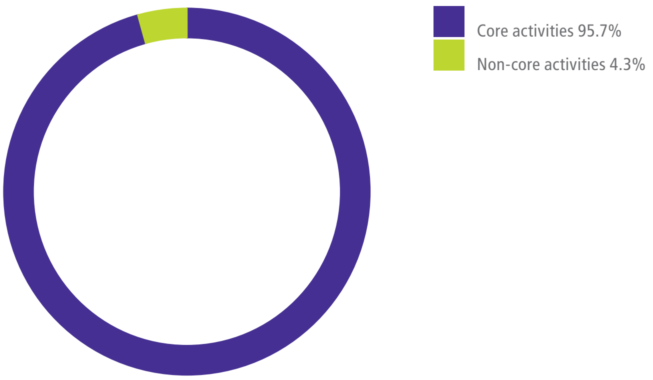
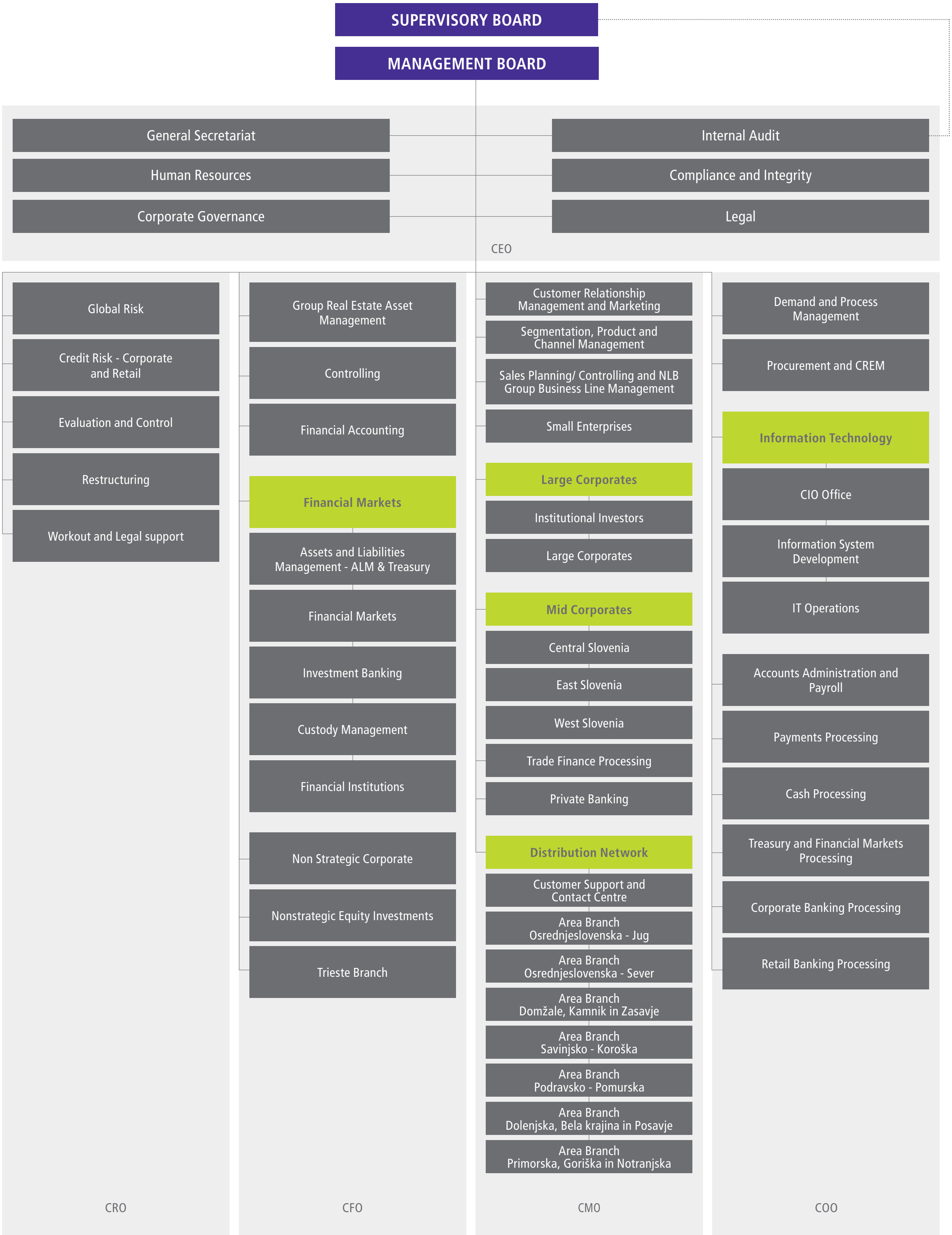



Figure 38: Employee structure of the NLB Group of the core and non-core activities (6,448 employees at the end of 2014)



## Chart 1: Structure of the NLB Group as at 31.12.2014

Chart 2: Organisational chart of NLB d.d. as at 31.12.2014



# Vision, mission, strategy, values of the NLB Group

## The NLB Group strategy

The strategy comprises the vision and mission, financial goals, strategic directions and values of the NLB Group, and a definition of the processes in which the Bank is planning to invest in order to improve the efficiency and accessibility of its services.

Figure 39: Key elements of the NLB Group strategy


### Vision of the NLB Group for 2020

The NLB Group will be a sustainably profitable banking group, predominantly working with clients in those core markets (or market segments, niches) where it can achieve and hold a top-three competitive position in terms of (relative) profitability and/or market share.

In its core business, NLB d.d. will differentiate itself with its in-depth client understanding, service level and advisory competence, bank accessibility and a competitive product/channel mix. It will compete mainly in traditional banking services, complemented by new offerings in line with market needs. The NLB Group will be focused on a quality and efficient day-to-day client service and will achieve top client satisfaction rankings.

The NLB Group will be a desired (family-friendly) employer, steadily investing in developing the NLB Group team competence and experience based on regular goal achievement. Finally, the NLB Group will support notable projects of local environments where it is present, especially in the fields of entrepreneurship, youth sports, culture and philanthropy.

By end of 2020, the NLB Group will have completed exiting most of its non-core business activities.

### Mission of the NLB Group

We are committed to developing a culture of client focus, risk awareness, integrity, a lean organisation and processes, and social responsibility.

The trust of our clients, employees, shareholders and the society in which we work gives us great responsibility. We honour this trust by working together with our stakeholders for positive change, mutual benefit and growth. By incorporating our values into everything we do, we are helping to positively change our environment.

### Strategic goals

We strive to pursue our vision and achieve our strategic goals:
- Every day we will focus on our clients, from loan/company restructuring to the active search for new business opportunities.
- We will foster the development of micro and small companies to support their evolution into the robust backbone of target markets' economies.
- We will optimise the Bank's distribution channels, including the branch network.
- We will develop additional transparent, easy-to-use and time-saving e-solutions to the benefit of our clients.
- We return to traditional banking, and to the core markets and segments. We will actively divest non-core activities.

### The NLB Group values

The Bank has identified the following core values:
- Responsibility to clients, employees and the social environment.
- Commitment to deliver on our promises and objectives.
- Open communication and cooperation.
- A win-win player.
- Efficiency in the fulfilment of our commitments.

### Processes

We will invest in the following processes to increase efficiency and accessibility:
- We will continue to introduce significant improvements in credit-approval policies, processes, systems and internal controls.
- We will practise transparent and professional decision-making as well as quality corporate governance without any undue or improper influence.
- We will establish a comprehensive integrity system, including measures to prevent future malpractices.
- We will (in several phases) conclude the initial reorganisation of the Bank to optimise cost, increase the speed of reacting to client needs, and improve communication flows.
- We will monitor our progress in achieving strategic goals by using set milestones and KPIs and regularly report using easily understandable scorecards.

### Financial goals

The NLB Group will be a sustainably profitable banking group by achieving the following financial goals:
- The NLB Group entities will target to achieve (and where applicable exceed) a long-term average return on equity of 10% on a self-sustainable basis[16].
- In Slovenia as the home market, NLB d.d. will be targeting an above 20% market share.
- In markets where other NLB Group members are present, they will aim to achieve an above 15% market share.
- We will execute the changes needed to improve cost-income ratios of banking entities below 60%.
- We will maintain high liquidity and security levels for depositors. The loan-to-deposit ratio is expected to stay below 105%.

## Bank's transformation

A comprehensive transformation process has been going on in the Bank since 2012. Its main objective has been to make NLB d.d. once again a sustainably profitable, trustworthy and competitive bank.

The two fundamental transformation processes have been the Restructuring Plan 2013-2017, which was submitted to the European Commission in NLB d.d. state aid approval proceeding, and the new NLB Group Strategy 2014-2018, created and confirmed by the Management Board and the Supervisory Board, respectively.

[16] Using an assumed normalised Tier 1 ratio of 14%.

## Key transformation elements

Key elements of the end-to-end transformation process comprise:
- a definition of the core operations and markets,
- the multi-phase reorganisation of various functions and processes in NLB d.d.,
- a Transformation Programme consisting of 23 projects and 3 business initiatives, with the aim of achieving important milestones in the field of regulations and management, production of income and related costs, quickly visible effects and the development of new organisational skills and competencies in many areas,
- the creation and communication of the new NLB Group Strategy, and
- introduction of new NLB Group values together with a revised definition of the NLB Group mission and vision for 2020.

With the aim of creating a sustainable result, in 2013 the NLB Group identified the operations considered core in the medium term; therefore, those that make it competitive and where it would like to be even more successful. The other operations were classified as non-core and are supposed to be gradually exited from. The key business activities of the Group are primarily banking, asset management, and life and pension insurance. The main market of the Group is Slovenia. Other core markets are those operated by banks in the Group, i.e. Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, and Serbia.

## Reorganisation

The key goals of the organisational changes in the Bank were to adapt its organisation structure to the Strategy and to make it efficient.

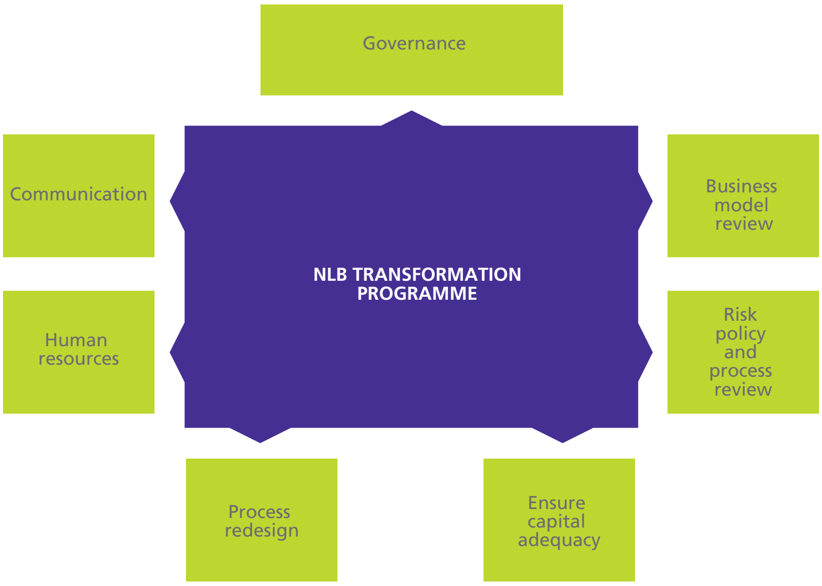
Organisation changes have been gradually introduced in several phases since mid-2013. In addition to reducing the number of organisational units and levels, and the number of employees in accordance with the plan, the key objective of the reorganisation process has been to improve the efficiency of the organisational units, particularly with regard to:
- more direct and high-quality communications, to allow for faster business decision-making, and to identify and meet the constantly changing customer needs;
- clear customer segmentation;
- risk management for customers with the same business profile; and
- the optimisation of sources and provision of the necessary business skills leading to the achievement of objectives.

In 2014 the Bank carried out four programmes to reduce the number of employees. From July 2013 to the end of 2014 measures were introduced aiming at the target 20% downsizing, of which two-thirds of departures were carried out with soft methods. In addition, the Bank lowered the number of organisational units by 13%, completely disposing of one of the hierarchical levels. In 2015, the Bank will continue to enforce certain organisational changes in order to ensure a leaner organisational structure; but the restructuring pace is expected to slow down significantly and to become much less intense in the years to follow.

## Transformation Programme

The Transformation Programme, launched by the Bank in October 2013, comprised 23 projects and 3 business initiatives, which are divided into seven streams.

Figure 40: The seven streams of the Transformation Programme




The objective was to analyse numerous aspects of the existing business model, define and plan the implementation of revised target business models for each transformation stream separately, which will significantly contribute to the development of NLB d.d. on its way to becoming a contemporary, competitive, efficient and effective bank.

By the end of 2014, the Bank had completed 14 projects and 3 business initiatives, which covers all the projects in the HR and Communication segments, and in addition it:

- revised and modernised the retail and corporate business models;
- revised the Group's strategy, mission and brand management principles;
- revised the procurement process and demand management;
- streamlined the management of the Group; and
- developed and implemented the concept for ensuring integrity and preventing fraud.

Of the remaining nine transformation projects, which are still in progress, seven are expected to finish in 2015 when the entire Programme will be compelted, while the the remaining two projects are expected to be compelted in 2016 and 2018, respectively.

The final implementation of the completed transformation projects will make the Bank more competitive, and capable of achieving its strategic goals. Another challenge will be its privatisation in accordance with the commitments given by the Republic of Slovenia, the objective of which is to repay the state aid.

# Corporate governance

In accordance with the applicable legislation, NLB d.d. has a two-tier governance system according to which the Bank is managed by the Management Board and its operations are supervised by the Supervisory Board. The Bank's bodies are the Shareholders Assembly, Supervisory Board and Management Board.

## Shareholders Assembly

The Shareholders Assembly meets and adopts decisions at regular and extraordinary shareholder meetings, where decisions are adopted in accordance with the law and the Bank's Statute. The Shareholders Assembly has powers stipulated by the Companies Act (Official Gazette of the RS No. 42/2006), Banking Act (Official Gazette of the RS No. 131/2006) and the Statute of Nova Ljubljanska banka d.d., Ljubljana.

In accordance with Article 19 of the Statute, the Shareholders Assembly makes decisions on or adopts:
- the Bank's Statute and changes thereto;
- the Rules of Procedure of the Shareholders' Assembly;
- the Annual Report if the Supervisory Board has not confirmed the Annual Report or if the Management Board and the Supervisory Board refer the Annual Report to the Shareholders Assembly for decision;
- the use of distributable profit;
- grants of discharge to the Management Board and Supervisory Board;
- changes to the Bank's share capital;
- annual limits and characteristics of issues of share convertible securities, and the Bank's equities;
- the appointment and recall of Supervisory Board members;
- the remuneration of Supervisory Board members, and participation in the Bank's profits by members of its Supervisory Board, Management Board and employees;
- the organisation that will carry out the audit of the Bank's financial statements;
- the Bank's status changes (mergers, demergers, transfer of assets, changes to the legal organisational form) and discontinuation of the Bank's operations; and
- other matters within its competence if so defined by the regulations and the Statute.

In 2014, the Slovenian Sovereign Holding d.d. as a representative of the sole shareholder of the Bank, the Republic of Slovenia, which is the owner of 20,000,000 or 100% shares with a voting right, on 1.7.2014 attended the 23$^{rd}$ Shareholders Meeting of Nova Ljubljanska banka d.d., Ljubljana. The meeting did not take place as initially planned on 23.6.2014, as it was postponed in line with the last paragraph of Article 13 of the Bank's Statute by no more than 15 days. In the introductory part, the shareholder became familiar with the adopted Annual Report of 2013 and the report from the Supervisory Board of NLB d.d. regarding the results of the previously reviewed 2013 Annual Report, information regarding the remuneration of members of the Management Board and Supervisory Board in 2013 and took note of the Rules of Procedure specifying other rights under management employment contracts or other rules and regulations of the Bank. The Shareholders Assembly afterwards adopted a decision that the Annual Report of NLB d.d. of 2013 did not indicate any distributable profit and that profit sharing was therefore not possible and granted a discharge to the Management Board and Supervisory Board for the 2013 financial year. The Shareholders Assembly appointed Ernst&Young, Ljubljana as the Bank's auditor for the 2014 business year. Moreover, the Shareholders Assembly became also acquainted with a 2013 report from the Internal Audit Centre and the opinion of the Supervisory Board regarding the report.

Based on a counterproposal from the shareholder, the Republic of Slovenia, submitted by the Slovenian Sovereign Holding d.d. at the Shareholders Assembly, the Shareholders Assembly also adopted changes and amendments to the Bank's Statute. The decision referring to Statute changes was afterwards replaced by a new decision adopted at the 24$^{th}$ Shareholders Assembly of Nova Ljubljanska banka d.d., Ljubljana, held on 3.11.2014. The Statute was updated with a commitment to comply with the Corporate Governance Code and a long-term goal of maximising the Bank's value, in which the Bank is committed to considering the interests of all stakeholders and the Bank as a whole and striving for its sustainable development. The provisions allowing for the option of increasing the share capital of the Bank without additional consent from the Shareholders Assembly were removed from the Statute.

Some of the Statute changes refer to the Shareholders Assembly, as it can be convened by the Management Board of the Bank, and as an exception only by the Supervisory Board when the Management Board fails to convene a Shareholders Assembly in time or its convocation is required by the Bank to run its business operations as usual. The Statute was updated with a provision stipulating that the power of attorney for representing the shareholder at the Shareholders Assembly shall remain stored in the Bank. Apart from the previously mentioned cases requiring a majority of 75% minimum of the cast votes for adopting decisions at the Shareholders Assembly, a decision was added recalling a Supervisory Board member.

The Statute changes also covered the provision referring to the composition of the Supervisory Board of the Bank, where the independence of the members is emphasized, the substance of its work in which its consent-giving powers were excluded with regard to some decisions adopted by the Management Board and the provision referring to substitute Supervisory Board member elections, which was deleted. Two articles were added, laying out the mandatory appointment and composition of the Audit Committee and Remuneration and Nomination Committee of the Supervisory Board and potential other committees.

The new Statute is also changing the functioning of the Management Board by giving the CEO the possibility to appoint his deputy and by allowing the Supervisory Board to adopt a decision defining the number of Management Board members. The golden vote right is properly arranged as it is now given only to the CEO. An option was added for the Bank's Management Board to unanimously adopt a decision authorising a particular Management Board member to independently make decisions on certain issues and activities from the Bank's business operations.

The Slovenian Sovereign Holding d.d., as the sole shareholder of the Bank, suggested at the 24th Shareholders Assembly held on 3.11.2014 that an item should be added to the agenda proposing the appointment of a new Supervisory Board member. Peter Groznik, became a new member of the Supervisory Board, with a decision adopted by the Shareholders Assembly.

## Supervisory Board

The Supervisory Board of NLB d.d. monitors and supervises the management and operations of the Bank. It performs its tasks in accordance with the provisions of the laws governing the operations of banks and companies and the Bank's Statute, Article 24 of which defines its powers. According to the Statute, the Supervisory Board is made up of seven members who are appointed and recalled by the Shareholders Assembly of the Bank among persons nominated by shareholders or the Supervisory Board of the Bank.

In 2013 the following members were appointed to the Supervisory Board at the Shareholders Assembly: France Arhar, Tit A. Erker, Uroš Ivanc, Goran Katušin, Miha Košak, Gorazd Podbevšek and Sergeja Slapničar. France Arhar, Chairman of the Supervisory Board, handed in his notice of resignation on 11.4.2014. Gorazd Podbevšek assumed the position of Chairman. Goran Katušin handed in his notice of resignation on 8.12.2014.

At the 24th Shareholders Assembly of NLB d.d., held on 3.11.2014, Peter Groznik was appointed with a four-year term of office.

### Table 22: NLB d.d. Supervisory Board

| Name | Function | Mandate | Audit Committee* | Risk Committee | Strategy and Development Committee | Remuneration and Nomination Committee |
|---|---|---|---|---|---|---|
| France Arhar | Chairman** | 2013–2017 | - | Member** | Deputy Chairman** | - |
| Gorazd Podbevšek | Deputy Chairman**<br>Chairman*** | 2013–2017 | - | - | - | Deputy Chairman**<br>Chairman*** |
| Tit A. Erker | Member | 2013–2017 | Member** | - | Member | Chairman |
| Uroš Ivanc | Member | 2013–2017 | Deputy Chairman | Chairman | Member*** | - |
| Goran Katušin | Member***** | 2013–2017 | Member***** | Deputy Chairman**** | - | - |
| Miha Košak | Member<br>Deputy Chairman*** | 2013–2017 | - | Member**** | Chairman | Member |
| Sergeja Slapničar | Member | 2013–2017 | Chairwoman | Member | - | Member |
| Peter Groznik | Member****** | 2013–2017 | - | - | - | - |

*Apart from the above-mentioned members, Mr. Ladislav Hornan is also a member of the Audit Committee in the new mandate as an independent external expert.
** Until 11.4.2014.
*** From 16.5.2014.
**** From 26.8.2014.
***** Until 12.12.2014.
****** From 4.11.2014.

## Gorazd Podbevšek

Education and training:
- he is a Bachelor of Law (Faculty of Law, University of Ljubljana) specialising in corporate law and corporate governance.

Career:
- he is a director of the company RMG, pravno svetovanje in korporativno upravljanje, d.o.o., a firm specialising in legal consultancy and corporate governance.

Other important functions and achievements:
- he is chairman of the expert council and a member of the programme board of the Slovenian Directors' Association and a member of the Policy Committee of the European Confederation of Directors' Associations (ecoDa),
- he is chairman of the board of directors of the company SŽ - ŽELEZNIŠKO GRADBENO PODJETJE LJUBLJANA d.d., Ob zeleni jami 2, 1000 Ljubljana,
- in particular, he focuses his efforts on changes to the status and capital of companies, the regulation of the corporate governance of companies and groups and on consultation in the area of corporate law, and
- he was involved in drafting legislation associated with the governance of state-owned companies and several autonomous sources of corporate governance.

## Miha Košak

Education and training:
- he holds an MBA from Bocconi University and an MA in the Economics of the European Community from Exeter University,
- he also holds a BSc in Economics in International Trade and Development from the London School of Economics.

Career:
- he is currently an independent consultant and up till June 2014 he was an Executive Director at VTB Capital where he was responsible for development of the Group's activities in Central and Eastern Europe, and
- he has held senior Director positions in a number of leading global financial institutions including Barclays de Zoete Wedd, Credit Suisse First Boston, UBS and Citigroup.

Other important functions and achievements:
- he has over 24 years of international banking experience in a wide range of corporate and investment banking including corporate finance, corporate lending, capital markets and wealth management. Throughout this time he has led and participated in key M&A transactions and capital raisings in a number of sectors in EMEA and Asia, including in the financial institutions sector.

## Sergeja Slapničar

Education and training:
- she received her doctoral degree from the Faculty of Economics University of Ljubljana in 2001,
- she took courses during her master's, doctoral and post-doctoral studies at the University of Bristol, University of Glasgow and the London School of Economics.

Career:
- she is an associate professor at the Faculty of Economics at the University of Ljubljana teaching financial accounting and financial analyses at undergraduate and postgraduate levels,
- in the period from 2007 to 2013, she was the chair of the Academic Unit for Accounting and Auditing and the chair of postgraduate studies.

Other important functions and achievements:
- in her research work, she focuses on corporate governance, financial reporting and the impact of measuring the performance and remuneration of managers on their decision-making; she has published a number of science and professional papers in renowned domestic and foreign journals,
- she is a member of the European and American Academic Accounting Associations,
- she has been a member of the Supervisory Board of Krka since 2010, she was a member of the Council of the Agency for Public Oversight of Auditing from 2008–2010 and since 2008 has been a member of the settlement panel under Article 609 of the Companies Act for testing exchange ratios in the ownership restructuring of companies, and
- she regularly gives lectures at business training sessions at the Business Excellence Centre of the Faculty of Economics, the Slovenian Directors' Association, the Bank Association and the SIQ.

### Tit A. Erker

Education and training:
- he obtained his master's degree in economics from Bocconi University in Milan where he specialised in monetary economics and game theory, and
- he completed undergraduate studies in Banking and Finance at the Faculty of Economics of the University of Ljubljana and the University of Amsterdam.

Career:
- he has been working at BP in London as director of the Group's Strategic Recruitment Department, since 2006. Prior to that, he worked for BP in South Africa as director of Planning and Controlling. He started his career at BP as macroeconomist and then head of oil derivatives' use analyses,
- earlier, he worked for the Pozavarovalnica Sava reinsurance company in the Strategy and Finance Department where he was in charge of preparation of the Slovene insurance pillar project. He was also a research and teaching assistant for monetary economics at the Faculty of Economics of the University of Ljubljana, and
- he started his career with the consulting company McKinsey.

### Uroš Ivanc

Education and training:
- he earned a master's degree in management and organisation (MScBA) within the scope of the IMB study programme at the Faculty of Economics in Ljubljana, and
- he holds the CFA title which he obtained in 2004.

Career:
- he is a member of the management board of Zavarovalnica Triglav, the CFO and is responsible for managing the Real Estate Management Department, and
- prior to that he was Executive Director for finance at Zavarovalnica Triglav for almost 9 years, in which position he was responsible for finance and managing the assets of the Group. He started gaining experience in management positions in 2004 when he led the corporate finance department, working in the areas of capital projects and management of the assets of the Triglav Group.

Other important functions and achievements:
- since 2005 he has been a member of several Supervisory Boards of companies within and outside the Triglav Group.

Currently he performs the following functions:
- he was a member of the Supervisory Board of Skupna pokojninska družba (resigned on 21 October 2014 effective on 21 January 2015),
- Chairman of the Board of Directors of Triglav INT, d.d.,
- Chairman of the Board of Directors of the company Triglav osigurovanje in Macedonia and a member of the Board of Directors of the company Lovčen osiguranje in Montenegro.

### Peter Groznik

Education and training:
- he holds a PhD in Finance from the Indiana University, Kelley School of Business,

Career:
- he is a Management Board member at Gorenje d.d., CFO and CRO and responsible for portfolio investments in the Gorenje Group,
- prior to that he was the head of asset management and CEO of the company KD Skladi, where he managed the company up to September 2010.

Other important functions and achievements:
- member of the Supervisory Board of the company Pivovarna Laško,
- lecturer at the Faculty of Economics of the University of Ljubljana,
- visiting professor at Kelley School of Business between 2003 and 2005,
- he held various functions within professional and strategic bodies of the Government of Slovenia, including president of the Strategy Council for Economic Development between 2007 and 2009,
- he has received several academic rewards, participated at seminars and conferences in Slovenia and abroad and published numerous papers in Slovenian and international professional media, and
- he owns the company for investment consulting NorthGrant.

**Ladislav Hornan** – independent external member of the Audit Committee

Education and training:
- a member of the ACCA (Association of Chartered Certified Accountants) since 1978 and a Fellow since 1983, and
- a member of the IPA (Insolvency Practitioners Association) since 1978.

Career:
- Managing Partner of UHY Hacker Young since 1995,
- Chairman of UHY International, a global auditing and consulting network, from 2002 to 2007 and also from 2012 to date,
- after obtaining a vocational qualification in 1978, he became a partner of UHY Hacker Young in 1980 and two years later was appointed a Partner in charge of the firm's Corporate Turn-around, Recovery and Insolvency Department. He has been providing advice in that capacity to clearing banks and other financial institutions in Great Britain, and to clients of legal and accounting firms on Corporate Turnaround and non-performing loans, and
- in becoming a member of the ACCA in 1978 he also qualified as an Authorised Auditor.

## Supervisory Board Committees

**The Strategy and Development Committee** monitors and drafts resolutions for the Supervisory Board regarding the Bank's core policies and development, while it also discusses, monitors and assesses the entire medium-term or long-term strategic plan of NLB d.d. and the NLB Group. It discusses the appropriateness of the organisational structure and corporate governance of NLB d.d. and the NLB Group, and discusses sales and purchases of participating interests in the NLB Group. The Committee met five times in 2014.

**The Audit Committee** monitors and drafts resolutions for the Supervisory Board regarding internal and external audits, the legal compliance of operations and the internal control system. The Committee met seven times in 2014.

**The Risk Committee** monitors and drafts resolutions for the Supervisory Board in all areas of risk relevant to the Bank's operations. The Committee met six times in 2014.

**The Remuneration and Appointment Committee** monitors basic strategic issues and drafts proposals for Supervisory Board decisions concerning the appointment and dismissal of Management Board members, determines the methods of recruiting and selecting Management Board candidates, concludes and oversees the content of individual employment contracts with members of the Management Board, oversees the remuneration of Management Board members and sets remuneration criteria and policies. The Committee met eight times in 2014.

In 2014 the costs of the Supervisory Board amounted to EUR 334,150. The costs referring to performance of the function comprise of meeting fees (EUR 40,948), payment for the performance of the function (EUR 133,093) and refund of costs (EUR 41,556). The majority of other costs is for translation services (EUR 74,227) and a minor share of costs for printing services (EUR 20,474), transport services and travel expenses (EUR 2,361) and other costs (EUR 21,491).

## Management Board

The Management Board of NLB d.d. 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 Statute of Association. In accordance with the Statute of Association, the Supervisory Board may appoint (and recall) three to six members (a president and up to five members) to the Management Board. The president and members are appointed for a term of five years.

In the selection procedure for candidates to the Management Board, the Supervisory Board follows the legal requirements, any requirements of the Bank's internal acts and the recommended guidelines of good practice (European and national) in terms of the knowledge, experience and skills required of the candidates. The Supervisory Board also prepares a professional profile of the selected candidate for a member of the Management Board, taking into consideration the structure of the Management Board as a collective body.

The Management Board is composed of Janko Medja, Chairman of the Management Board, and members of the Management Board: Blaž Brodnjak, Andreas Burkhardt and Archibald Kremser. Management Board member Nima Motazed tendered his resignation and his mandate was terminated on 18.12.2014.

## Table 23: The Management Board of NLB d.d. – responsibilities of members for individual areas of operations and important positions outside NLB d.d.

| Name and surname | Immediate responsibility | Important positions outside NLB d.d. |
|---|---|---|
| **Janko Medja (CEO)**<br>Chairman of the Management Board | Core Functions of the Bank:<br>- Internal Audit<br>- Compliance Centre<br>- Legal Centre<br>- Human Resources<br>- Corporate Governance<br>- General Secretariat | **Deputy Chairman of the Supervisory Board:**<br>Bank Association of Slovenia<br>**Chairman of the Supervisory Board:**<br>NLB Tutunska banka, Skopje<br>**Chairman of the Board of Directors:**<br>NLB Prishtina, Prishtina<br>**Member of the Board of Governors:**<br>AmCham |
| **Blaž Brodnjak (CMO)**<br>Member of the Management Board | Retail, Private and Corporate Banking:<br>- Customer Relationship Management and Marketing<br>- Segmentation Product and Channel Management<br>- Sales Planning/Controlling and the NLB Group Business Line Management<br>- Small Enterprises<br>- Large Corporates<br>- Mid Corporates<br>- Trade Finance Processing<br>- Private Banking<br>- Distribution Network | **Chairman of the Supervisory Board:**<br>NLB Banka, Tuzla<br>NLB Razvojna banka, Banja Luka<br>**Member of the Board of Directors:**<br>NLB banka, Belgrade |
| **Andreas Burkhardt (CRO)**<br>Member of the Management Board | Risk Area:<br>- Global Risk<br>- Credit Risk – Corporate and Retail<br>- Evaluation and Control<br>- Restructuring<br>- Workout and Legal Support | **Chairman of the Board of Directors:**<br>NLB Montenegrobanka, Podgorica<br>**Member of the Supervisory Board:**<br>NLB Banka, Tuzla<br>NLB Razvojna banka, Banja Luka |
| **Archibald Kremser (CFO)**<br>Member of the Management Board | Financial Area:<br>- Group Real Estate Asset Management<br>- Controlling<br>- Financial Accounting<br>- Financial Markets<br>- Non-core Corporate<br>- Non-core Equity Investments<br>- Area Branch Trieste | **Chairman of the Board of Directors:**<br>NLB banka, Belgrade<br>(since 29.4.2014) |
| **Nima Motazed (COO)***<br>Member of the Management Board<br>(until 17.12.2014) | Operations Area:<br>- Demand and Process Management<br>- Procurement and CREM<br>- Information Technology<br>- Accounts Administration and Payroll<br>- Payments Processing<br>- Cash Processing<br>- Treasury and Financial Markets Processing<br>- Corporate Banking Processing<br>- Retail Banking Processing | **Member of the Supervisory Board:**<br>Adria Bank, Vienna (until 5.6.2014)<br>**Chairman of the general assembly of shareholders:**<br>NLB Propria, Ljubljana (until 17.12.2014) |

* Direct responsibilities were assumed by Janko Medja after Nima Motazed resigned.

## Janko Medja

Education and training:
- in 2005 he finished his MBA studies with honours at the IEDC Bled School of Management,
- in 1997 he graduated from the Faculty of Economics of the University of Ljubljana.

Career:
- he performed the function of Chairman of the Supervisory Board of NLB d.d. in the period from July 2012 to October 2012,
- he was a Management Board member at Unicredit bank (from September 2008 to July 2012), and before that Head of Corporate Banking at Unicredit bank (from February 2004 to September 2008).

Other important functions and achievements:
- he received recognition from the Bank of Slovenia for his Bachelor's thesis entitled "Quality in Banking",
- in 2011 the Managers' Association of Slovenia awarded him the prestigious prize "Young Manager of the Year",
- in 2014 he received the IEDC Alumni Achievement Award following the proposal of the IEDC Bled School of Management alumni and decision of the international committee.

### Blaž Brodnjak

Education and training:
- in 2009 he finished his MBA studies with honours at the IEDC Bled School of Management,
- in 1998 he graduated from the Faculty of Economics at the University of Ljubljana.

Career:
- before assuming the function of member of the Management Board in December 2012, he was Head of the Group Corporate and Public Finance Division in the Hypo Alpe-Adria Group in Klagenfurt for two years,
- prior to that he was a proxy of the Management Board of Zavarovalnica Triglav for more than a year,
- between 2005 and 2009 he was a Management Board member at Bawag bank,
- from March 2003 to January 2005 he was Head of the Corporate Sales Division at Raiffeisen bank,
- between October 2001 and February 2003 he was in charge of the Corporate Sales Division at the then Bank Austria Creditanstalt (now Unicredit bank). This is where he started his banking career in 2000, whereas his business career started in 1998 in the company Publikum.

Other important functions and achievements:
- he also acted as a Supervisory Board Chairman or a Member in 10 banking, two insurance and one manufacturing companies in recent years.

### Andreas Burkhardt

Education and training:
- he completed MBA studies at the University of Dayton in the United States in 1999,
- he graduated from the University of Augsburg in Germany, where he completed his specialisation in the field of accounting and management in 1998.

Career:
- prior to joining NLB d.d. in September 2013 from June 2012 to August 2013, he was Head of Risk Management for Volksbank Hungary and had a special focus on upgrading and streamlining the Restructuring and Workout activities of the bank,
- from August 2010 to November 2011, he worked as a member of the Management Board in Volksbank Romania responsible for Restructuring and Workout activities, and
- in the period from 2003 till 2009, he served as a member of the Management Board of Volksbank BiH, Sarajevo in charge of the finance and risk and before that, after 2000 in other functions in the framework of the bank.

Other important functions and achievements:
- 15 years of experience in the area of banking, especially in the area of Central Europe.

### Archibald Kremser

Education and training:
- in 1997 he graduated from the University of Technology in Vienna, and
- he received his MBA from the international business school INSEAD in France, where he specialised in bank management and corporate finance.

Career:
- 10 years of experience in the financial industry and banking in Austria, CEE and SEE with a focus on finance, restructuring and portfolio management,
- prior to joining NLB d.d., Mr. Kremser worked for 8 years in various managerial functions and positions in the Kommunalkredit Austria Group, a major Austrian bank jointly owned by Dexia SA and Volksbanken Austria AG,
- between 2011 and 2013 he oversaw the efforts to re-establish Kommunalkredit Austria as a specialised infrastructure finance and investment bank in preparation for its privatisation process,
- between 2008 and 2011 he was in charge of major restructuring projects of Kommunalkredit Group with the wind-down and divestment of large parts of the operation,
- between 2005 and 2008 he supervised the establishment and operations of the CEE subsidiaries of Dexia Kommunalkredit Bank with a combined balance sheet of approx. EUR 10 billion,
- he started his career by working for six years in leading international consulting companies (Ernst & Young, Bain & Company) where he led major performance improvement projects in leading financial institutions in Austria/Germany/Switzerland and the entire CEE region.

## Collective decision-making bodies

- **NLB d.d. Corporate Credit Committee** determines credit ratings and makes decisions on the reclassification of customers, sets maximum borrowing limits and approves commercial banking investment transactions. The Committee adopts decisions in line with the Bank's credit policy and business plan within the boundaries of the authorisations set by the statute in the following areas:
  - corporate operations of NLB d.d. (all companies, banks and financial institutions),
  - operations with customers under intensive care and workout, and
  - operations with non-core customers.

  As a rule, Committee meetings shall be convened once a week. The Committee shall have six to seven members. The Chairman of the Committee shall be the member of the Management Board responsible for the area of risk.
- **The 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 d.d. and NLB 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 shall be convened once a week. The Committee shall have four members. The Chairman of the Committee shall be the member of the Management Board responsible for the area of finance.
- **NLB d.d. Operational Risk Committee** is a collective decision-making body of the Bank’s Management Board responsible for monitoring, guiding and supervising operational risk management in NLB d.d., and for transferring this methodology to the NLB Group members. As a rule, the Committee shall meet once every two months. The Committee shall have 13 members. The Chairman of the Committee shall be the member of the Management Board responsible for the area of risk.
- **The Watch List Committee** is a decision-making body that makes decisions on the classification and monitoring of clients on the watch list and intensive care list. Meetings of the Committee are held monthly, or weekly in the event of an increased scope of work. The Committee shall have five members. The Chairman of the Committee is the Director of the Credit Analysis and Control Division.
- **NLB d.d. Retail Credit Committee** decides on the approval of loans and other credit proposals, the conditions of which deviate from standard banking products and services and which represent additional risks for the Bank. As a rule, Committee meetings shall be convened once a week. The Committee shall have four members. The Chairman of the Committee is the Director of the Credit Analysis and Control Division.

## Advisory bodies of the Bank’s Management Board

- **The Team Meeting of the Bank** is the advisory body of the Management Board where opinions and suggestions regarding matters that fall within the decision-making authority of the Management Board are shared.
- **The Strategic Conference of the NLB Group** and the **Business Conference of the NLB Group** are typically convened once a year. The NLB Group’s strategic and business objectives are discussed at these conferences.

## Corporate governance of the NLB Group

As the parent bank in the NLB Group, NLB d.d. provides corporate governance for the NLB Group in accordance with the legislation of the Republic of Slovenia and the legislation of the countries in which the NLB Group subsidiaries operate, as well as in line with internal regulations. Commitments of the European Commission and the European Central Bank regulations are also considered within the implementation of Corporate Governance.

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

The NLB Group's corporate governance is implemented:

- in accordance with the fundamental corporate rules through various bodies of the NLB Group members:
    - through voting at the general meetings of shareholders of the NLB Group members;
    - with proposals for the appointment of management of the NLB Group members;
    - with proposals for the appointment of representatives of NLB d.d. to the supervisory bodies;
    - by exercising supervision through the supervisory bodies of members of the NLB Group; and
    - by cooperation of NLB d.d. representatives in various committees and commissions of the members of the NLB Group;
- through mechanisms for the effective monitoring of operations, harmonisation of business standards and dissemination of information within the NLB Group:
    - by business area (i.e. according to the "business line" principle), meaning the principle of commercial and professional coordination of activities within the NLB Group;
    - by convening "leadership meetings" for members of the NLB Group attended by members of Management Boards of core subsidiaries and by convening meetings of individual member of Management Board of NLB d.d. with Management Board members from the NLB Group subsidiaries, responsible for the same business area.

The Bank's Internal Audit Centre and Compliance and Integrity Centre and external supervisors (e.g. the Bank of Slovenia, external auditors and local regulators) provide additional supervision of the NLB Group.

To perform the function of corporate governance within the NLB Group, two special organisational units were established in NLB d.d.: the Corporate Governance Department and the Non-Core Equity Investments Department. These two units manage and supervise the NLB Group subsidiaries, harmonise the rules of those companies' operations with NLB d.d. standards, cooperate in the preparation of the development strategy of the NLB Group, adopt guidelines for the operations of the individual members, and monitor their implementation.

In 2014 we upgraded the corporate governance concept of the NLB Group, strengthened the role of the members of the Management Board of NLB d.d. and the managements of the NLB Group. The upgrade of corporate governance is also reflected in the establishment of the target structure of the supervisory bodies, optimisation of the operation of the supervisory bodies and simplification of reporting and standards in the area of harmonisation of operations.

## Added value is a sum of added values of participating individuals.

Last year we stabilised our operations and for the first time since 2008 finished the business year with a profit of EUR 62.3 million.

Our finance adviser getting acquainted with the market-attractive product of the company Siliko.

Nova Ljubljanska banka d.d., Ljubljana

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

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

# Table of 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 shareholder of Nova Ljubljanska Banka, d.d.**

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of NLB Group ("NLB Group" or "the Group") and the separate financial statements of Nova Ljubljanska Banka, d.d. ("NLB" or "the Bank") which comprise the consolidated and separate statement of financial position as at December 31, 2014, and the consolidated and separate income statement, consolidated and separate statement of other comprehensive income, consolidated and separate statement of changes in shareholders' equity and consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated and separate Financial Statements present fairly, in all material respects, the financial position of the Group and the Bank as of December 31, 2014, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on Other Legal and Regulatory Requirements**

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated and separate financial statements.

Ljubljana, April 15, 2015

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Primož Kovačič
Certified Auditor

# Statement of Management's Responsibility

The Management Board hereby confirms its responsibility for preparing the financial statements of NLB d.d. and the consolidated financial statements of the NLB Group for the year ended 31 December 2014, 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 d.d. and the NLB Group as at 31 December 2014 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 d.d. and the NLB Group, together with the notes, have been prepared on a going-concern basis for NLB d.d. and the NLB Group and in line with valid legislation and the International Financial Reporting Standards as adopted by the European Union.

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

**Management Board of NLB d.d.**

**Archibald Kremser**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
Member of the
Management Board

**Janko Medja**
President of the
Management Board

# Income statement

in EUR thousand

| | | NLB d.d. | | NLB Group | |
|---|---|---|---|---|---|
| | Notes | 2014 | 2013 | 2014 | 2013 |
| Interest and similar income | 4.1. | 332,037 | 342,280 | 497,975 | 494,972 |
| Interest and similar expense | 4.1. | (104,694) | (184,856) | (167,969) | (261,468) |
| **Net interest income** | | **227,343** | **157,424** | **330,006** | **233,504** |
| Dividend income | 4.2. | 6,378 | 4,104 | 1,778 | 2,452 |
| Fee and commission income | 4.3. | 130,499 | 132,058 | 192,841 | 189,970 |
| Fee and commission expense | 4.3. | (29,761) | (30,978) | (53,212) | (52,188) |
| **Net fee and commission income** | | **100,738** | **101,080** | **139,629** | **137,782** |
| Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss | 4.4. | 37,096 | (277,894) | 37,413 | (304,805) |
| Gains less losses from financial assets and liabilities held for trading | 4.5. | (2,574) | 974 | 3,620 | 6,982 |
| Gains less losses from financial assets and liabilities designated at fair value through profit or loss | | - | - | 60 | 102 |
| Fair value adjustments in hedge accounting | 5.5. | (982) | (126) | (982) | (126) |
| Foreign exchange translation gains less losses | | 170 | (1,692) | (1,776) | (2,547) |
| Gains less losses on derecognition of assets other than held for sale | | (584) | (1,709) | (1,526) | (1,815) |
| Other operating income | 4.6. | 19,014 | 15,414 | 29,543 | 29,118 |
| Other operating expenses | 4.7. | (15,803) | (17,796) | (23,968) | (31,358) |
| Administrative expenses | 4.8. | (168,948) | (185,841) | (267,727) | (288,506) |
| Depreciation and amortisation | 4.9. | (24,356) | (26,598) | (35,776) | (44,332) |
| Provisions for other liabilities and charges | 4.10. | (30,750) | (36,943) | (24,378) | (39,915) |
| Impairment charge | 4.11. | (62,321) | (1,189,344) | (117,061) | (1,030,278) |
| Share of net gains less losses of associates and joint ventures accounted for using the equity method | 5.12.c) | - | - | 3,106 | (26,469) |
| Net losses from non-current assets held for sale | | (1,671) | (7,840) | (2,762) | (8,480) |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | | **82,750** | **(1,466,787)** | **69,199** | **(1,368,691)** |
| Income tax | 4.12. | (1,221) | (73,491) | (4,131) | (73,453) |
| **PROFIT/(LOSS) FOR THE YEAR** | | **81,529** | **(1,540,278)** | **65,068** | **(1,442,144)** |
| Attributable to owners of the parent | | 81,529 | (1,540,278) | 62,336 | (1,441,563) |
| Attributable to non-controlling interests | | - | - | 2,732 | (581) |
| Earnings per share (in EUR per share) | | 4.1 | - | 3.1 | - |

The notes are an integral part of these financial statements.

# Statement of comprehensive income

in EUR thousand

| | | NLB d.d. | | NLB Group | |
|---|---|---|---|---|---|
| | Notes | 2014 | 2013 | 2014 | 2013 |
| **Net gain/(loss) for the year after tax** | | **81,529** | **(1,540,278)** | **65,068** | **(1,442,144)** |
| **Other comprehensive income after tax** | | **29,923** | **13,984** | **33,452** | **15,596** |
| ***Items that will not be reclassified to income statement*** | | | | | |
| **Actuarial losses on defined benefit pensions plans** | | **(3,946)** | **-** | **(3,656)** | **-** |
| ***Items that may be reclassified subsequently to income statement*** | | | | | |
| **Foreign currency translation** | | **-** | **-** | **(2,467)** | **799** |
| Translation (losses)/gains taken to equity | | - | - | (2,467) | 799 |
| **Cash flow hedges (effective portion)** | | **(655)** | **1,095** | **(655)** | **1,095** |
| Net valuation (losses)/gains taken to equity | 5.5. | (1,334) | 218 | (1,334) | 218 |
| Transferred to profit | 5.5. | 679 | 877 | 679 | 877 |
| **Available-for-sale financial assets** | | **41,461** | **15,753** | **40,970** | **17,589** |
| Valuation gains/(losses) taken to equity | 5.4.c | 77,908 | (1,119) | 77,518 | 742 |
| Transferred to profit | 4.4. and 4.11. | (36,447) | 16,872 | (36,548) | 16,847 |
| **Share of other comprehensive income/(losses) of entities accounted for using the equity method** | | **-** | **-** | **7,338** | **(996)** |
| **Income tax relating to components of other comprehensive income** | 5.19. | **(6,937)** | **(2,864)** | **(8,078)** | **(2,891)** |
| **Total comprehensive income/(loss) for the year after tax** | | **111,452** | **(1,526,294)** | **98,520** | **(1,426,548)** |
| Attributable to owners of the parent | | 111,452 | (1,526,294) | 95,725 | (1,425,713) |
| Attributable to non-controlling interests | | - | - | 2,795 | (835) |

The notes are an integral part of these financial statements.

# Statement of financial position

in EUR thousand

| | | NLB d.d. | | NLB Group | |
|---|---|---|---|---|---|
| | Notes | 31, 12, 2014 | 31, 12, 2013 | 31, 12, 2014 | 31, 12, 2013 |
| Cash, cash balances at central banks and other demand deposits at banks | 5.1. | 434,438 | 590,645 | 1,127,527 | 1,250,600 |
| Trading assets | 5.2. | 138,808 | 104,779 | 138,218 | 104,335 |
| Financial assets designated at fair value through profit or loss | 5.3. | 4,702 | 3,801 | 6,510 | 6,615 |
| Available-for-sale financial assets | 5.4.a) | 1,182,748 | 1,155,412 | 1,672,952 | 1,675,117 |
| Derivatives - hedge accounting | 5.5. | 2,966 | 5,426 | 2,966 | 5,426 |
| Loans and advances | | | | | |
| - debt securities | 5.6.a) | 706,785 | 702,791 | 706,785 | 702,791 |
| - loans and advances to banks | 5.6.b) | 159,300 | 160,569 | 271,340 | 224,590 |
| - loans and advances to customers | 5.6.c) | 4,993,040 | 5,426,129 | 6,708,332 | 7,041,430 |
| - other financial assets | 5.6.d) | 47,836 | 41,337 | 71,769 | 63,919 |
| Held-to-maturity financial assets | 5.7. | 711,648 | 864,259 | 711,648 | 864,259 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 912 | 530 | 912 | 530 |
| Non-current assets classified as held for sale | 5.8.a) | 2,580 | 2,327 | 5,643 | 17,582 |
| Property and equipment | 5.9. | 97,330 | 108,449 | 215,175 | 238,578 |
| Investment property | 5.10. | 1,458 | 1,458 | 41,472 | 34,844 |
| Intangible assets | 5.11. | 33,743 | 44,976 | 42,751 | 54,727 |
| Investments in subsidiaries | 5.12.a) | 345,585 | 269,392 | - | - |
| Investments in associates and joint ventures | 5.12.b) | 7,127 | 7,200 | 37,525 | 28,284 |
| Current income tax assets | | - | 8 | 1,898 | 1,923 |
| Deferred income tax assets | 5.18. | 6,738 | 13,392 | 5,947 | 12,092 |
| Other assets | 5.13. | 7,983 | 4,541 | 140,119 | 162,492 |
| **TOTAL ASSETS** | | **8,885,727** | **9,507,421** | **11,909,489** | **12,490,134** |
| Trading liabilities | 5.15. | 43,764 | 34,064 | 43,758 | 34,063 |
| Financial liabilities designated at fair value through profit or loss | 5.3. | 4,701 | 3,800 | 4,701 | 3,800 |
| Derivatives - hedge accounting | 5.5. | 43,985 | 36,519 | 43,985 | 36,519 |
| Financial liabilities measured at amortised cost | | | | | |
| - deposits from banks and central banks | 5.16.a) | 91,115 | 74,266 | 62,334 | 37,457 |
| - borrowings from banks and central banks | 5.16.b) | 643,578 | 2,261,739 | 714,722 | 2,386,208 |
| - due to customers | 5.16.a) | 6,294,925 | 5,743,673 | 8,943,832 | 8,257,077 |
| - borrowings from other customers | 5.16.b) | 33,511 | 36,284 | 136,660 | 162,309 |
| - debt securities in issue | 5.16.c) | 359,853 | 68,782 | 359,853 | 68,782 |
| - subordinated liabilities | 5.16.d) | - | - | 17,328 | 21,874 |
| - other financial liabilities | 5.16.e) | 46,223 | 61,609 | 71,886 | 86,609 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | - | 133 | - | 133 |
| Provisions | 5.17. | 114,565 | 87,080 | 126,974 | 108,923 |
| Current income tax liabilities | | 324 | - | 1,780 | 116 |
| Deferred income tax liabilities | 5.18. | - | - | 315 | 370 |
| Other liabilities | 5.20. | 4,263 | 6,004 | 12,066 | 14,897 |
| **TOTAL LIABILITIES** | | **7,680,807** | **8,413,953** | **10,540,194** | **11,219,137** |
| **EQUITY AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT** | | | | | |
| Share capital | 5.21. | 200,000 | 200,000 | 200,000 | 200,000 |
| Share premium | 5.22. | 871,378 | 871,378 | 871,378 | 871,378 |
| Accumulated other comprehensive income | | 38,491 | 8,568 | 36,485 | 3,096 |
| Profit reserves | 5.22. | 13,522 | 13,522 | 13,522 | 13,522 |
| Retained earnings | 5.22. | 81,529 | - | 221,676 | 159,391 |
| | | 1,204,920 | 1,093,468 | 1,343,061 | 1,247,387 |
| Non-controlling interests | | - | - | 26,234 | 23,610 |
| **TOTAL EQUITY** | | **1,204,920** | **1,093,468** | **1,369,295** | **1,270,997** |
| **TOTAL LIABILITIES AND EQUITY** | | **8,885,727** | **9,507,421** | **11,909,489** | **12,490,134** |

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.

**Archibald Kremser**
Member of the Management Board

**Andreas Burkhardt**
Member of the Management Board

**Blaž Brodnjak**
Member of the Management Board

**Janko Medja**
President of the Management Board

Ljubljana, 15 April 2015

# Statement of changes in equity

in EUR thousand

| NLB d.d. | Share capital | Share premium | Other equity instruments issued | Accumulated other comprehensive income | Profit reserves | Retained earnings | Treasury shares | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 104,731 | 774,472 | 336,044 | (5,416) | 164,204 | (304,874) | (2,048) | 1,067,113 |
| - Net loss for the year | - | - | - | - | - | (1,540,278) | - | (1,540,278) |
| - Other comprehensive income | - | - | - | 13,984 | - | - | - | 13,984 |
| Total comprehensive loss after tax | - | - | - | 13,984 | - | (1,540,278) | - | (1,526,294) |
| Dilution of shareholders | (184,079) | 184,079 | - | - | (2,048) | - | 2,048 | - |
| New share capital subscribed | 201,858 | 1,351,001 | - | - | - | - | - | 1,552,859 |
| Conversion of other equity instruments issued | 77,490 | 263,727 | (341,217) | - | - | - | - | - |
| Covering of the loss brought forward | - | (161,413) | - | - | (143,461) | 304,874 | - | - |
| Covering of the loss from the current year | - | (1,540,278) | - | - | - | 1,540,278 | - | - |
| Other | - | (210) | 5,173 | - | (5,173) | - | - | (210) |
| **Balance at 31 December 2013** | **200,000** | **871,378** | **-** | **8,568** | **13,522** | **-** | **-** | **1,093,468** |
| - Net gain for the year | - | - | - | - | - | 81,529 | - | 81,529 |
| - Other comprehensive income | - | - | - | 29,923 | - | - | - | 29,923 |
| Total comprehensive income after tax | - | - | - | 29,923 | - | 81,529 | - | 111,452 |
| **Balance at 31 December 2014** | **200,000** | **871,378** | **-** | **38,491** | **13,522** | **81,529** | **-** | **1,204,920** |

in EUR thousand

| NLB Group | Share capital | Share premium | Other equity instruments issued | Accumulated other comprehensive income | Profit reserves | Retained earnings | Treasury shares | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 104,731 | 774,472 | 336,044 | (12,754) | 164,204 | (239,611) | (2,048) | 1,125,038 | 19,946 | 1,144,984 |
| - Net loss for the year | - | - | - | - | - | (1,441,563) | - | (1,441,563) | (581) | (1,442,144) |
| - Other comprehensive income | - | - | - | 15,850 | - | - | - | 15,850 | (254) | 15,596 |
| Total comprehensive loss after tax | - | - | - | 15,850 | - | (1,441,563) | - | (1,425,713) | (835) | (1,426,548) |
| Dilution of shareholders | (184,079) | 184,079 | - | - | (2,048) | - | 2,048 | - | - | - |
| New share capital subscribed | 201,858 | 1,351,001 | - | - | - | - | - | 1,552,859 | - | 1,552,859 |
| Conversion of other equity instruments issued | 77,490 | 263,727 | (341,217) | - | - | - | - | - | - | - |
| Covering of the loss brought forward | - | (161,413) | - | - | (143,461) | 304,874 | - | - | - | - |
| Covering of the loss from the current year | - | (1,540,278) | - | - | - | 1,540,278 | - | - | - | - |
| Transactions with non-controlling interests | - | - | - | - | - | (4,587) | - | (4,587) | 4,499 | (88) |
| Other | - | (210) | 5,173 | - | (5,173) | - | - | (210) | - | (210) |
| **Balance at 31 December 2013** | **200,000** | **871,378** | **-** | **3,096** | **13,522** | **159,391** | **-** | **1,247,387** | **23,610** | **1,270,997** |
| - Net gain for the year | - | - | - | - | - | 62,336 | - | 62,336 | 2,732 | 65,068 |
| - Other comprehensive income | - | - | - | 33,389 | - | - | - | 33,389 | 63 | 33,452 |
| Total comprehensive income after tax | - | - | - | 33,389 | - | 62,336 | - | 95,725 | 2,795 | 98,520 |
| Dividends paid | - | - | - | - | - | - | - | - | (183) | (183) |
| Transactions with non-controlling interests | - | - | - | - | - | (51) | - | (51) | 12 | (39) |
| **Balance at 31 December 2014** | **200,000** | **871,378** | **-** | **36,485** | **13,522** | **221,676** | **-** | **1,343,061** | **26,234** | **1,369,295** |

In 2013 at NLB d.d. and the NLB Group the item Other relates to costs directly attributable to the issuance of new shares in amount of EUR 213 thousand, accrued income from issued financial instrument with characteristics of equity in the amount of EUR 5,173 thousand (note 2.23.) and unpaid dividends in the amount of EUR 3 thousand.

A significant effect on equity attributable to owners of the parent in item transactions with non-controlling interests in 2013 is the effect of an increase in the equity of NLB Leasing, Ljubljana in OL Nekretnine, Zagreb in the amount of EUR 4,236 thousand. Changes in ownership interest are presented in chapter 3 and note 5.12.a).

The notes are an integral part of these financial statements.

# Statement of cash flows

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Interest received | 349,133 | 351,747 | 508,281 | 500,049 |
| Interest paid | (127,912) | (196,140) | (196,799) | (266,118) |
| Dividends received | 6,378 | 4,104 | 1,714 | 2,788 |
| Fee and commission receipts | 128,230 | 129,733 | 191,505 | 189,216 |
| Fee and commission payments | (29,563) | (30,929) | (51,689) | (51,023) |
| Realised gains from financial assets and financial liabilities not at fair value through profit or loss | 37,301 | 7,316 | 37,623 | 12,738 |
| Realised losses from financial assets and financial liabilities not at fair value through profit or loss | (187) | - | (187) | - |
| Net (losses)/gains from financial assets and liabilities held for trading | (2,516) | (11,895) | 2,739 | (7,109) |
| Payments to employees and suppliers | (176,232) | (189,346) | (274,080) | (292,636) |
| Other income | 17,885 | 15,669 | 31,958 | 43,968 |
| Other expenses | (17,629) | (18,283) | (28,798) | (23,818) |
| Income tax paid | - | (342) | (2,204) | (3,078) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | **184,888** | **61,634** | **220,063** | **104,977** |
| **Decreases in operating assets** | **369,209** | **533,186** | **139,620** | **12,281** |
| Net increase in trading assets | (47,565) | (26,832) | (47,565) | (26,832) |
| Net (increase)/decrease in financial assets designated at fair value through profit or loss | - | (274) | 2,548 | (964) |
| Net decrease/(increase) in available-for-sale financial assets | 3,241 | 145,262 | (1,342) | (13,808) |
| Net decrease in loans and advances | 414,263 | 415,354 | 174,502 | 68,759 |
| Net (increase)/decrease in other assets | (730) | (324) | 11,477 | (14,874) |
| **Decreases in operating liabilities** | **(765,942)** | **(1,633,576)** | **(637,868)** | **(1,500,183)** |
| Net decrease in deposits and borrowings measured at amortised cost | (1,054,832) | (1,600,766) | (926,886) | (1,466,415) |
| Net increase/(decrease) in securities measured at amortised cost | 288,979 | (32,902) | 288,979 | (35,402) |
| Net (decrease)/increase in other liabilities | (89) | 92 | 39 | 1,634 |
| **Net cash used in operating activities** | **(211,845)** | **(1,038,756)** | **(278,185)** | **(1,382,925)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| **Receipts from investing activities** | **235,412** | **315,650** | **237,276** | **316,036** |
| Proceeds from sale of property and equipment and investment property | 545 | 113 | 2,303 | 499 |
| Proceeds from sale of subsidiaries | 250 | - | - | - |
| Proceeds from non-current assets held for sale | 626 | - | 982 | - |
| Proceeds from disposals of held-to-maturity financial assets | 233,991 | 315,537 | 233,991 | 315,537 |
| **Payments from investing activities** | **(124,252)** | **(315,892)** | **(97,605)** | **(149,357)** |
| Purchase of property and equipment and investment property | (3,381) | (4,122) | (10,793) | (9,862) |
| Purchase of intangible assets | (6,422) | (5,729) | (7,696) | (7,441) |
| Purchase of subsidiaries and increase in subsidiaries' equity | (35,333) | (173,987) | - | - |
| Purchase of held-to-maturity financial assets | (79,116) | (132,054) | (79,116) | (132,054) |
| **Net cash flows used in investing activities** | **111,160** | **(242)** | **139,671** | **166,679** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| **Proceeds from financing activities** | **-** | **1,142,860** | **-** | **1,142,860** |
| Issue of ordinary shares and other equity instruments | - | 1,142,860 | - | 1,142,860 |
| **Payments from financing activities** | **-** | **(61,676)** | **(4,753)** | **(61,676)** |
| Dividends paid | - | - | (108) | - |
| Repayments of subordinated debt | - | (61,463) | (4,570) | (61,463) |
| Other payments related to financing activities | - | (213) | (75) | (213) |
| **Net cash from financing activities** | **-** | **1,081,184** | **(4,753)** | **1,081,184** |
| Effects of exchange rate changes on cash and cash equivalents | 6,816 | (5,055) | 5,346 | (7,973) |
| **Net increase/(decrease) in cash and cash equivalents** | **(100,685)** | **42,186** | **(143,267)** | **(135,062)** |
| **Cash and cash equivalents at beginning of year** | **613,092** | **575,961** | **1,430,905** | **1,573,940** |
| **Cash and cash equivalents at end of year** | **519,223** | **613,092** | **1,292,984** | **1,430,905** |

The notes are an integral part of these financial statements.

# Statement of cash flows

in EUR thousand

| | | NLB d.d. | | NLB Group | |
|---|---|---|---|---|---|
| | Notes | 2014 | 2013 | 2014 | 2013 |
| **Cash and cash equivalents comprise:** | | | | | |
| Cash, cash balances at central banks and other demand deposits at banks | 5.1. | 434,438 | 590,645 | 1,127,527 | 1,250,600 |
| Loans and advances to banks with original maturity up to 3 months | 5.6. | 84,785 | 21,447 | 129,936 | 107,562 |
| Trading assets with original maturity up to 3 months | 5.2. | - | 1,000 | - | 1,000 |
| Available for sale financial assets with original maturity up to 3 months | 5.4. | - | - | 35,521 | 71,743 |
| **TOTAL** | | **519,223** | **613,092** | **1,292,984** | **1,430,905** |

# Notes to the financial statements

## 1. General information

Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB d.d.) is a joint-stock entity providing universal banking services. The NLB Group consists of NLB d.d. and subsidiaries in 12 countries.

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

The ultimate controlling party of NLB d.d. is the Republic of Slovenia which was the sole shareholder as at 31 December 2014 and 31 December 2013.

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

## 2. Summary of significant accounting policies

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

### 2.1. Statement of compliance

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

### 2.2. Basis of 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 and financial assets and financial liabilities at fair value through profit or loss, including all derivative contracts, and investment property.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. Critical accounting policies and estimates are disclosed in note 2.32.

### 2.3. Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year. In 2014 the scheme of statement of financial position changed, and the data for 2013 were adjusted. Before the change, demand deposits with banks were included in the item Loans and advances to banks, while after the change, they are included in the item Cash, cash balances at central banks and other demand deposits at banks. The item Deposits and borrowings from central banks was deleted, after the change the amount of deposits and borrowings from central banks is included in the item Financial liabilities measured at amortised cost (deposits or borrowings from banks and central banks). The change only affects the presentation of the financial statements.

### 2.4. Consolidation

In the consolidated financial statements subsidiaries which are directly or indirectly controlled by NLB d.d. have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the NLB Group.

NLB d.d. 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 d.d. reassess whether it controls an entity if facts and circumstances indicate that 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 control ceases.

Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by the NLB Group. The financial statements of consolidated subsidiaries are prepared as of the parent entity's reporting date. Non-controlling interests are disclosed in the consolidated statement of changes in equity. Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by NLB d.d. The NLB Group measures non-controlling interest on a transaction by transaction basis, either at fair value, or the non-controlling interest's proportionate share of net assets of the acquiree.

Inter-company transactions, balances and 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.

The NLB Group treats transactions with non-controlling interests as transactions with equity owners of the NLB Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on sales to non-controlling interests are also recorded in equity. For sales to non-controlling interests, the differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity. 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 at cost method. Dividends from subsidiaries, joint ventures or associates are recognised in income statement when NLB d.d.'s right to receive the dividend is established.

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

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

The NLB Group's 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 the 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, the NLB Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate and joint venture. The NLB Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised (note 5.12.b).

The NLB Group's subsidiaries, associates and joint ventures are presented in note 5.12.

## 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 and the liabilities assumed. Any negative amount, 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 but excludes acquisition-related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

## 2.7. A combination of entities or businesses under common control

A merger of entities within the NLB Group is a business combination involving entities under common control. For such mergers, members of the 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 the NLB Group do not affect the consolidated financial statements.

## 2.8. Foreign currency translation

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

***Transactions and balances***
Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are 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 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, are included together with valuation reserves in the valuation (losses)/ gains taken to other comprehensive income and accumulated in equity.

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

***The NLB Group entities***
The financial statements of all the NLB Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each income statement are translated at average exchange rates;
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

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

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

## 2.9. Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest rate method. The effective interest rate method is a method used to calculate the 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. Once a financial asset or a group of similar financial assets has been impaired, interest income is recognised with the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

## 2.10. Fee and commission income

Fees and commissions are generally 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 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 when the NLB Group's right to receive payment is 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

### a) Classification

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

***Financial instruments at fair value through profit or loss***

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

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

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

Derivatives are 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 the NLB Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the NLB Group, upon initial recognition, classifies at fair value through profit or loss; (b) those that the NLB Group, upon initial recognition, classifies as available for sale; or (c) those for which the NLB Group may not recover substantially all of its initial investment for reasons other than a deterioration in creditworthiness.

***Held-to-maturity financial assets***

Held-to-maturity financial assets are non-derivative financial instruments that are traded in an active market with fixed or determinable payments and a fixed maturity that the NLB Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity financial asset if the 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 the maturity.

***Available-for-sale financial assets***

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

### b) Measurement and recognition

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 amortised cost.

### c) Day one gains or losses

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by 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.

### d) Reclassification

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

### e) Derecognition

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

### f) Fair value measurement principles

The fair value of financial instruments traded on active markets is based on the 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.

### g) 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 the NLB Group and within liabilities when the derivative position is unfavourable to the 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. The 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.

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

***Fair value hedge***
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are 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 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 recognised immediately in the income statement in "Gains less losses on financial assets and liabilities held for trading".

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

When a hedging instrument expires or is sold, or when a hedge no longer meets hedge accounting criteria, any cumulative gain or loss existing in other comprehensive income and previously accumulated in equity at that time remains in other comprehensive income and in equity and is 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.

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

## 2.13. Impairment of financial assets

### a) Assets carried at amortised cost

The 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 total exposure to a customer exceeds 0.5% of a bank's capital. In 2014, all exposures to banks, all exposures to other legal entities exceeding EUR 20 thousand and all exposures to individuals exceeding EUR 300 thousand were deemed individually significant assets requiring individual assessment. If the 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 assesses them for impairment.

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

The criteria the NLB Group uses to determine whether objective evidence of impairment loss exists include:

- delays in the payment of contractual interests 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 asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is 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 liquidation value of 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, the 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 past years' experience, i.e. annual transition matrices for different types or segments of customers. These 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), the 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 liquidation value of collateral), the reversal of the loss is recognised as a reduction in the allowance for loan impairment.

The 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.

### b) Assets classified as available for sale

The NLB Group assesses at each reporting date whether there is objective evidence that available-for-sale financial assets are impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of 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 the 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.

### c) 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 the 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 as impairment. 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 the 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. The NLB Group takes into account the debtor's modified position, the economic expectations and the collateral of the forborne loan. When the 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, 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 the 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 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;
- no exposure to the debtor is more than 30 days in default at the end of the probation period.

### d) 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 values and are classified in appropriate category according to their purpose and are sold as soon as practical in order to reduce exposure (note 7.1.n). After initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable to the relevant asset categories.

## 2.14. Offsetting

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

## 2.15. Sale and repurchase agreements

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

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

## 2.16. Property and equipment

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

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

Items of property and equipment which do not generate cash flows that are largely independent are included in 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:

Uporabljene letne stopnje amortizacije so:

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

## 2.17. Intangible assets

Intangible assets include software licenses, goodwill (note 2.6.) and customer relationships. 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 intangible asset over its estimated useful life. The core banking system is amortised over a period of ten years, other software over a period of three to five years and customer relationships over a period of twelve to fifteen years.

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

## 2.18. Investment properties

Investment properties include buildings held for leasing and not occupied by the NLB Group. 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 fair value is recognised in the income statement.

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

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

During subsequent measurement, certain assets and liabilities of disposal group that are outside the scope of IFRS 5 measurement requirements are measured in accordance with the applicable standards (e.g. deferred tax assets, assets arising from employee benefits, financial instruments, investment property measured at fair value and contractual rights under insurance contracts).

Tangible and intangible assets are not depreciated. The effects of sale and valuation are included in the income statement as a gain or loss from non-current assets held for sale.

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

## 2.20. Accounting for leases

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

***The NLB Group as lessee***
Leases in which a significant portion of the 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 termination takes place.

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

***The NLB Group as 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.

The NLB Group classifies a lease as a finance lease when the risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased under a finance lease, the present value of the lease payments is 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***
The NLB Group also enters into sale-and-leaseback transactions (in which the NLB Group is primarily a lessor), under which the leased assets are purchased from and then leased back to the lessee. These contracts are classified as finance leases or operating leases, depending on the contractual terms of the leaseback agreement.

## 2.21. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with central banks 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.

## 2.22. Borrowings 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 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.

## 2.23. 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 the 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.

## 2.24. Provisions

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

## 2.25. 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. Such guarantees are mainly issued on behalf of construction companies to secure the performance of construction contracts.

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. The 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
- the best estimate of the expenditure required to settle the obligation.

***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 commitments to extend credit, uncovered letters of credit and other commitments.

## 2.26. Inventories

Inventories are measured at the lower of cost and net realisable value.

## 2.27. Taxes

Income tax expense comprises current and deferred tax.

Current corporate income tax in the NLB Group is calculated on taxable profits at the applicable tax rate in the respective jurisdiction. The corporate income tax rate for 2014 in Slovenia was 17% (2013: 17%).

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 and cash flow hedges is charged or credited directly to other comprehensive income.

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

2014 is the last year for which Slovenian banks are required to pay balance-sheet tax. The tax base is represented by total assets, i.e. the value of assets stated in the statement of financial position. It is calculated as the average of the monthly values on the last day of each month during the calendar year. The balance-sheet tax rate is 0.1%. The calculated tax may be reduced by 0.1 % (2013: 0.1%) of loans granted to non-financial firms and independent entrepreneurs. Loans are calculated as the average value of monthly net balances, excluding allowances for impairments or changes in fair value, on the last day of each month during the calendar year. Tax expense is recognised in other operating expenses (note 4.7.).

A tax on financial services, which imposes a tax on fees paid for prescribed financial services rendered was introduced in Slovenia in 2013. The tax rate is 6.5% (from 1 January 2015 onwards the tax rate is 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.

## 2.28. Fiduciary activities

The NLB Group provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in the NLB Group's financial statements as they do not represent assets of the NLB Group. Fee and commission income charged for this type of service is broken down by items in note 4.3.b). Further details on transactions managed on behalf of third parties are disclosed in note 5.26.

Based on the requirements of Slovenian legislation, the NLB Group has additionally disclosed in note 5.26 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.

## 2.29. Employee benefits

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

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Actuarial assumptions** | | | | |
| Discount factor | 1.9% | 7.8% | 1.9% - 8.7% | 7.8% - 18% |
| Wage growth based on inflation, promotions and wage growth based on past years of service | 2.0% | 2.0% | 0.5 % - 4.5 % | 0.5% - 4.5% |
| **Other assumptions** | | | | |
| Number of employees eligible for benefits | 3,008 | 3,359 | 5,703 | 6,194 |

### Sensitivity analysis of significant actuarial presumptions

| 31.12.2014 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Discount rate | | Future salary increases | | Discount rate | | Future salary increases | |
| | +1 b.p. | -1 b.p. | +0.5 b.p. | -0.5 b.p. | +1 b.p. | -1 b.p. | +0.5 b.p. | -0.5 b.p. |
| Impact on employee benefits provisions - post-employment benefits (in %) | (9) | 11 | 3 | (3) | (9) | 11 | 3 | (3) |

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

These obligations are measured at the present value of future cash outflows considering future salary increases and then apportioned to past and future employee service based on benefit plan terms and conditions.

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 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. 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 in item Actuarial gains/(losses) on defined benefit pensions plans and will not be recycled to the income statement.

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

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

## 2.30. Share capital

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

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

## 2.31. Segment reporting

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

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

In accordance with IFRS 8, the NLB Group has the following reportable segments: Corporate banking in Slovenia, Retail banking in Slovenia, Financial markets in Slovenia, Core foreign markets, Non-core markets and activities and Other activities.

## 2.32. Critical accounting estimates and judgments in applying accounting policies

The NLB Group's financial statements are influenced by accounting policies, assumptions, estimates and management judgment. The NLB Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with 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) Impairment losses on loans and advances

The NLB Group monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary impairments. The NLB Group creates individual impairments for individually significant financial assets where objective evidence of impairment exists. Such evidence is based on information regarding the fulfilment of contractual obligations or other financial difficulties of the debtor and other important facts defined in note 2.13. Individual assessments are based on the expected discounted cash flows from operations and/or the liquidation value of the collateral, as verified by the Credit Analyses and Control Division.

Impairments are assessed collectively for financial assets for which no objective evidence of impairment exists or for financial assets with lower exposure amounts. The future cash flows in this group of assets are estimated on the basis of past experience and losses from assets with a similar credit risk as the assets in the group. The methodology and assumptions used to estimate future cash flows are reviewed regularly in order to make loss estimations as realistic as possible.

### Stress testing for credit risk using transition matrices and a decrease in the market value of real-estate collateral

Stress testing is structured to take into account a probable scenario and a stress scenario in the testing of each stress situation. It is assumed that the risk in the probable scenario is covered by regulatory capital, while the stress scenario assumes a deteriorating stress exceeding expectations. The difference between the two scenarios is the amount of additionally required impairments that must be created by the bank in the event of their realisation.

In the stress scenarios, the effect of the deterioration of the quality of credit portfolio is assessed using historical transition matrices separately for individuals and legal persons. Exposure to banks, international financial institutions and the central government is not subject to stress testing. The assumption in these scenarios is that exposure does not change over one year, while the coverage ratio per each rating category is also maintained. The effect of the deterioration in credit ratings reflected by the transition matrices is seen as an increase in additionally required impairments. Moreover, the partial effect of a decrease in real-estate market values in both segments, seen in the amount of additionally required impairments, is also taken into account.

As a result of the stress scenario, NLB d.d. will require additional impairments of EUR 53.3 million (2013: EUR 53.5 million), while the loan loss impairments to gross loan ratio will increase by 0.74 percentage points (2013: 0.67 percentage points). For the NLB Group, the same stress scenario results in an increase in impairments of EUR 69.9 million (2013: EUR 74.7 million) and an increase in the coverage of the credit portfolio by impairments by 0.66 percentage points (2013: 0.53 percentage points).

### b) Fair value of financial instruments

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

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model, valuation based on comparable 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 applied credit spread. Changes in assumptions regarding these factors could affect the reported fair values of financial instruments held for trading and available-for-sale financial assets.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market), in accordance with the 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. The NLB Group applies market yield curves for valuation, fair values are additionally adjusted for credit risk of the counterparty.

The fair value hierarchy of financial instruments is disclosed in note 7.5.

### c) Available-for-sale equity instruments

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

If all the declines in fair value below cost had been considered significant or prolonged, NLB d.d. would have incurred additional impairment losses of EUR 0 (2013: EUR 233 thousand), while the NLB Group would have incurred additional impairment losses of EUR 360 thousand (2013: EUR 704 thousand) from the reclassification of the negative valuation from the statement of comprehensive income to the income statement for the current year.

### d) Held-to-maturity financial assets

The NLB Group classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held-to-maturity financial assets. Before making this classification, the NLB Group assesses its intention and ability to hold such investments to maturity. If the NLB Group is unable to hold these investments until maturity, it must reclassify the entire group as available-for-sale financial assets. The investments would therefore be measured at fair value, resulting in an increase in the value of investments of EUR 63,617 thousand (31 December 2013: increase by EUR 18,314 thousand) and a corresponding other comprehensive income.

### e) 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 depend on the estimated cash flow for those periods for which formal plans are available and on assumptions regarding sustainability of and growth in cash flows in the future. The cash flows used represent management's assessment of future performance at the time of testing. Estimated cash flows are based on a five-year business plan. 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 residual period is between 1% and 1.5%.
- A target capital adequacy ratio of an individual bank is between 13% and 17%.
- The discount rate derived from the capital asset pricing model and used to discount future cash flows is based on the cost of equity allocated to an individual investment. The discount rate reflects the impact of 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. A pre-tax discount rate is between 15.87% and 20.22% (31 December 2013: between 15.45% and 20.18%).

The recoverable amount of investments in core members of the NLB Group is value in use, which is calculated with the discounted cash flow method. The recoverable amount of investments in non-core members of the NLB Group is fair value less costs to sell, which is determined based on the realisable value. Calculations of the recoverable amount, that is the value in use, are based on the above factors and assumptions.

For core NLB Group's members in 2014 there were no indications of impairment for equity investments.

In 2013, NLB d.d. impaired equity investments with the discounted cash flows model. If the discount rate in the discounted cash flows model differs by +/- 1 percentage point, the net present value in use of the equity investments would be lower in case of the increased discount rate by a maximum of EUR 10.5 million and in case of a decreased discount rate the net present value in use of equity investments would be higher by a maximum of EUR 12.4 million. If the forecasted cash flows in the discounted cash flows model differ by +/- 10%, the estimated value in use of the equity investments would be higher in case of increased forecasted cash flows by a maximum of EUR 13.8 million and in case of decreased forecasted cash flows, the value in use of equity investments would be lower by a maximum of EUR 13.8 million.

### f) Goodwill and other intangible assets

In the consolidated financial statements, goodwill and other intangible assets are allocated to cash-generating units (hereinafter: CGUs), which represent the lowest level within the NLB Group at which these assets are monitored by management. Each NLB Group entity presents a separate CGU. The recoverable amount of each CGU was determined based on value-in-use calculations.

The NLB Group performed a test for the impairment of goodwill and other intangible assets at the end of the year for all subsidiaries. The review of the impairment of goodwill and other intangible assets is based on the same facts and assumptions as the review of impairment of investments in subsidiaries, associates and joint ventures (note 2.32.e).

### g) Taxes

The NLB Group operates in countries governed by different laws. The deferred tax assets recognised as at 31 December 2014 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 could lead to the recognition of currently unrecognised deferred tax assets or the derecognition of previously created deferred tax assets. The NLB Group will adjust deferred tax assets accordingly in the event of changes to assumptions regarding future operations (note 4.12.).

### h) Classification of issued financial instruments as debt or equity

The NLB Group issues non-derivative financial instruments, where a specific judgment is required to determine whether these instruments are classified as a liability or as equity. When the delivery of cash depends on the outcome of uncertain future events that are beyond the control of the NLB Group and management anticipates that these future events are extremely rare, highly abnormal and unlikely to occur, these instruments are classified as equity.

## 2.33. Implementation of the new and revised International Financial Reporting Standards

During the current year, the NLB Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: the IASB) and the International Financial Reporting Interpretations Committee (hereinafter: the IFRIC) and endorsed by the EU that are effective for annual accounting periods beginning on 1 January 2014.

***Accounting standards and amendments to existing standards effective for annual periods beginning on 1 January, 2014 that were endorsed by the EU and adopted by the NLB Group***

- IAS 32 (amendments) – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). The amendments added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The amendment has no impact on the NLB Group's consolidated financial statements.

- IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosures of Interests in Other Entities, a revised version of IAS 27 – Separate Financial Statements, which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements, and a revised version of IAS 28 – Investments in Associates and Joint Ventures, which has been amended for conforming changes of IFRS 10 and IFRS 11. Standards are effective for annual periods beginning on or after 1 January 2014. New standards have an impact on the presentation of the NLB Group's consolidated financial statements.

    - IFRS 10 (new standard). The new standard replaces those parts of IAS 27 – Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC 12 Consolidation – Special Purpose Entities has been withdrawn with the issuance of IFRS 10. Under IFRS 10, there is only one basis for the consolidation of subsidiaries, that being control. In addition, IFRS 10 includes a new definition of control that contains three elements: control over an investee, exposure, or rights to variable returns from its involvement with the investee, and the ability to use its control over the investee to affect the amount of the investor's returns.

    - IFRS 11 (new standard). The new standard replaces IAS 31 – Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement, over which two or more parties have joint control, should be classified. SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn with the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 must be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 in previous periods may be accounted for using the equity method of accounting or proportionate accounting.

    - IFRS 12 (new standard). The new standard is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the previous standards. The amendment has an impact on the presentation of the NLB Group's consolidated financial statements.

- Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosures of Interests in Other Entities: Transition Guidance (effective for annual periods beginning on or after 1 January 2014). The amendments were issued to ease transition to new standards by restricting requirements regarding assurance of adjusted comparable data for comparable periods. The amendment has no impact on the NLB Group's consolidated financial statements.

- Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosures of Interests in Other Entities: Investment Entities (effective for annual periods beginning on or after 1 January 2014). The amendments include a definition of an investment entity and the requirement that such entities measure investments in subsidiaries at fair value through profit and loss instead of consolidating them. Also the new disclosure requirements for investment entities and requirements for an investment entity's separate financial statements are included in amendments. The amendment has no impact on the NLB Group's consolidated financial statements.

- IAS 39 (amendment) – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014). The amendment permits the continuation of hedge accounting when a hedge derivative is novated to a central counterparty as the result of laws and regulations, and when certain conditions are met. The amendment has no significant impact on the NLB Group's consolidated financial statements.
- IAS 36 (amendment) – Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). The amendment requires the disclosure of the recoverable amounts for the assets or cash generating units for which impairment loss has been recognised or reversed during the period and the additional disclosures of the recoverable amount of assets for which impairment loss has been recognised or reversed during the period, if the recoverable amount is based on fair value less cost to sell. The amendment has an impact on the presentation of the NLB Group's consolidated financial statements.

***Accounting standards and amendments to existing standards that were endorsed by the EU but not adopted early by the NLB Group***

- IFRIC 21 (new interpretation) – Levies (effective for annual periods beginning on or after 17 June 2014). IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The NLB Group is evaluating the impact that the adoption of interpretation will have on its consolidated financial statements.
- IAS 19 (amendment) – Employee Benefits (effective for annual periods beginning on or after 1 February 2015). The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment will not have an impact on the NLB Group's consolidated financial statements.
- Annual Improvements to IFRSs 2010–2012 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 February 2015. The amendment to IFRS 2 – Share-based Payment includes the definitions of vesting conditions and market conditions and adds definitions for performance conditions and service conditions. The amendment to IFRS 3 – Business Combinations clarifies that contingent consideration classified as an asset or liability shall be measured at fair value through profit and loss, irrespective of whether the contingent consideration is a financial instrument in the scope of IAS 39 and IFRS 9 or not. The amendment to IFRS 8 – Operating Segments requires the disclosure of judgments made by management in applying aggregation criteria to operating segments and reconciliation of the total of the reportable segments' assets if the segment assets are reported regularly to the chief operating decision-maker. The amendment to IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets clarifies that when an item of property, plant and equipment or intangible asset is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. The amendment to IAS 24 – Related Party Disclosures clarifies that an entity providing key management personnel services to the reporting entity is a related party of the reporting entity. The amendments will not have a significant impact on the NLB Group's consolidated financial statements.
- Annual Improvements to the IFRS 2011–2013 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2015. The amendment to IFRS 3 – Business Combinations relates to a change in the terminology in IFRS 11 – Joint Arrangements. The amendment clarifies that all joint arrangements, not only joint ventures, are out of the scope of IFRS 3. The amendment to IFRS 13 – Fair Value Measurement clarifies that the scope of the portfolio exception includes all contracts accounted for in the scope of IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 9 Financial instruments. The amendment to IAS 40 – Investment Property clarifies that determining whether a specific transaction meets

the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. The amendments will not have a significant impact on the NLB Group's consolidated financial statements.

***Accounting standards and amendments to existing standards but not endorsed by the EU***

- IFRS 9 (new standard) – Financial Instruments effective for annual periods beginning on or after 1 January 2018). In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment, and hedge accounting. The NLB Group is evaluating the impact of standard on the NLB Group's consolidated financial statements.

- IFRS 14 (new standard) - Regulatory Deferral Accounts is effective for annual periods beginning on or after 1 January 2016. The standard allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard.

- IFRS 10 and IAS 28 (amendment) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture is effective from annual periods beginning on or after 1 January 2016. 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. The NLB Group is evaluating the impact of the amendment on the NLB Group's consolidated financial statements.

- Annual Improvements to IFRSs 2012–2014 Cycle. The improvements comprise a mixture of substantive changes and clarifications, and are effective for annual periods beginning on or after 1 January 2016. The amendment to IFRS 5 Non-current assets held for sale and discontinued operations clarifies that when the asset or disposal group is reclassified from held for sale to held for distribution, or vice versa, the change of an original plan of disposal or distribution is not needed. The amendments to IFRS 7 Financial instruments: Disclosures clarify whether a servicing contract for a transferred financial asset leads to continuing involvement and remove the requirement of disclosing offsetting financial assets and liabilities in condensed interim financial statements. The amendment to IAS 19 Employee benefits requires usage of market yields on government bonds for discount rate for post-employment benefit obligation in currency in which the post-employment benefit obligation is denominated, if for the currency there is no deep market of highly quality corporate bonds. The amendment to IAS 34 Interim financial reporting clarifies that interim disclosures must be included in interim financial statements or cross-referenced between interim financial statements and other parts of interim reports (management commentary or risk report). The amendments will not have a significant impact on the NLB Group's consolidated financial statements.

- IAS 27 (amendment) - Equity Method in Separate Financial Statements is effective from annual periods beginning on or after 1 January 2016. The amendments include the option for an entity to account for its investments in subsidiaries, joint ventures, and associates using the equity method in its separate financial statements. The NLB Group is evaluating the impact of the amendment on the NLB Group's consolidated financial statements.

- IAS 16 and IAS 38 (amendment) – Clarification of Acceptable Methods of Depreciation and Amortisation is effective from annual periods beginning on or after 1 January 2016. The amendment clarifies that a revenue-based method should not generally be used as a basis for the depreciation of property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendment will not have an impact on the NLB Group's consolidated financial statement.

- IAS 16 and IAS 41 (amendment) - Bearer Plants is effective from annual periods beginning on or after 1 January 2016. The amendment changes the accounting requirements for biological assets that meet the definition of bearer plants. The amendment will not have an impact on the NLB Group's consolidated financial statement.

- IFRS 11 (amendment) – Accounting for Acquisition of Interests in Joint Operations is effective from annual periods beginning on or after 1 January 2016. The amendment requires that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured upon the acquisition of an additional interest in the same joint operation while joint control is retained. The amendment will not have an impact on the NLB Group's consolidated financial statement.
- IFRS 15 (new standard) – Revenue from Contracts with Customers is effective from annual periods beginning on or after 1 January 2017. 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 the principles 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. The NLB Group is evaluating the impact of the standard on the NLB Group's consolidated financial statements.
- IFRS 10, IFRS 12 and IAS 28 (amendment) - Investment Entities: Applying the Consolidation Exception is effective from annual periods beginning on or after 1 January 2016. The amendments address issues arising in practice in the application of the investment entities consolidation exception. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The NLB Group is evaluating the impact of standard to NLB Group's consolidated financial statements.
- IAS 1 (amendment) - Disclosure Initiative is effective from annual periods beginning on or after 1 January 2016. The amendments further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income arising from equity accounted Investments. The NLB Group is evaluating the impact of standard on the presentation of the NLB Group's consolidated financial statements.

## 3. Changes in subsidiary holdings

### Changes in 2014

#### a) Capital changes:

- Increases in share capital in the form of a loan conversion in the total amount of EUR 82,197 thousand were registered at NLB Leasing, Beograd, PRO-REM, Ljubljana, NLB Leasing, Ljubljana, NLB Srbija, Beograd, NLB Leasing, Sofia and NLB Crna Gora, Podgorica.
- Increases in share capital in the form of cash contributions in the total amount of EUR 35,326 thousand were registered in NLB Srbija, Beograd, NLB Banka, Beograd, NLB Leasing, Podgorica, NLB Leasing, Sarajevo and CBS Invest, Sarajevo.
- NLB d.d. increased its ownership interest in NLB Montenegrobanka, Podgorica in the amount of EUR 15,000 thousand from 97.40% to 98.00%.
- A decrease in share capital in the amount of EUR 640 thousand was registered in Plan, Banja Luka.

#### b) Other changes:

- Relevant activities of entities ICJ – v stečaju, Domžale and Conet – v stečaju, Beograd are subject to bankruptcy manager and therefore NLB d.d. no longer has control over these entities and they are not included in the consolidated financial statements according to full consolidation.

- As at 5 June 2014 a simplified decrease with a simultaneous increase in share capital was registered in Adria Bank, Wien. Due to covering the loss from 2013, the share capital at first decreased to 0; NLB d.d. did not participate in the increase in share capital.
- PRO-REM d.o.o., Ljubljana was established. NLB d.d.'s ownership in PRO-REM d.o.o., Ljubljana is 100%.
- NLB d.d. and NLB Razvojna Banka, Banja Luka sold their 88.14% ownership in Plan d.o.o., Banja Luka.
- Based on the decision of the Bank of Slovenia on extra-ordinary measures, all qualified liabilities of Banka Celje were derminared and therefore NLB d.d. no longer has a capital investment in the bank.
- Plan d.d., Banja Luka changed its legal organisational form to Plan d.o.o, Banja Luka.
- LHB Trade d.o.o., Zagreb was renamed LHB Trade d.o.o. - u likvidaciji, Zagreb.
- By converting other items of equity in share capital, the share capital of NLB Vita, Ljubljana increased by EUR 184 thousand. NLB d.d.'s share interest in the entity remained unchanged.

## Changes in 2013

### a) Capital changes:

- Increases in share capital in the form of cash contributions in the total amount of EUR 215,173 thousand were registered at NLB Factoring "v likvidaci", Ostrava, CBS Invest, Sarajevo, NLB Montenegrobanka, Podgorica, NLB Srbija, Beograd, NLB Leasing, Ljubljana, Optima Leasing, Zagreb, OL Nekretnine, Zagreb, NLB Interfinanz Praha, Praga and NLB Banka, Beograd. An increase in share capital in the total amount of EUR 12,000 thousand has not yet been registered in NLB Leasing, Sarajevo.
- Increases in share capital in the form of a loan conversion in the total amount of EUR 53,750 thousand were registered at NLB Leasing, Beograd, NLB Leasing, Ljubljana and NLB banka, Beograd.

### b) Other changes:

- NLB Factoring, Ostrava was renamed NLB Factoring, "v likvidaci", Ostrava.
- NLB Crna Gora d.o.o., Podgorica was established. NLB d.d.'s ownership in NLB Crna Gora d.o.o., Podgorica is 100%.
- NLB d.d. increased its ownership interest in NLB Montenegrobanka, Podgorica from 96.71% to 97.40%.
- NLB Leasing, Ljubljana increased its ownership interest in OL Nekretnine, Zagreb, from 99.93% to 100%. Consideration was paid in the amount of EUR 13 thousand.
- NLB Leasing, Ljubljana increased its ownership interest in Optima Leasing, Zagreb, from 99.82% to 99.95%. Consideration was paid in the amount of EUR 23 thousand.

# 4. Notes to the income statement

## 4.1. Interest income and expenses

### Analysis by type of assets and liabilities

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Interest and similar income** | | | | |
| Loans and advances to customers | 253,581 | 252,830 | 404,236 | 390,003 |
| Held-to-maturity financial assets | 29,861 | 34,767 | 29,861 | 34,767 |
| Available-for-sale financial assets | 26,221 | 24,154 | 43,527 | 42,635 |
| Financial assets held for trading | 15,574 | 19,168 | 15,440 | 18,820 |
| Loans and advances to banks and central banks | 3,870 | 6,800 | 1,227 | 3,015 |
| Derivatives - hedge accounting | 2,279 | 3,670 | 2,279 | 3,670 |
| Deposits with central banks | 651 | 891 | 1,405 | 2,062 |
| **TOTAL** | **332,037** | **342,280** | **497,975** | **494,972** |
| **Interest and similar expenses** | | | | |
| Due to customers | 61,112 | 109,227 | 115,746 | 174,516 |
| Borrowings from banks and central banks | 15,515 | 36,906 | 19,204 | 42,398 |
| Financial liabilities held for trading | 12,412 | 17,665 | 12,412 | 17,652 |
| Derivatives - hedge accounting | 7,077 | 9,514 | 7,077 | 9,514 |
| Debt securities in issue | 7,058 | 2,751 | 7,038 | 3,024 |
| Subordinated liabilities | - | 7,853 | 1,460 | 9,160 |
| Borrowings from other customers | 563 | 577 | 3,653 | 4,553 |
| Deposits from banks and central banks | 74 | 105 | 161 | 307 |
| Other financial liabilities | 883 | 258 | 1,218 | 344 |
| **TOTAL** | **104,694** | **184,856** | **167,969** | **261,468** |
| **NET INTEREST** | **227,343** | **157,424** | **330,006** | **233,504** |

In 2014, interest income on individually impaired loans amounted to EUR 40,165 thousand for NLB d.d. (2013: EUR 18,222 thousand) and to EUR 59,023 thousand (2013: EUR 37,123 thousand) for the NLB Group.

Interest expenses from other financial liabilities include interests related to provisions for defined employee benefits in the amount of EUR 653 thousand in NLB d.d. (2013: EUR 157 thousand) and EUR 887 thousand in the NLB Group (2013: EUR 211 thousand) (notes 2.29. and 5.17.c).

## 4.2. Dividend income

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Investments in subsidiaries, associates and joint ventures | 4,683 | 1,763 | - | - |
| Available-for-sale financial assets | 1,691 | 2,121 | 1,774 | 2,232 |
| Financial assets held for trading | 4 | 220 | 4 | 220 |
| **TOTAL** | **6,378** | **4,104** | **1,778** | **2,452** |

## 4.3. Fee and commission income and expenses

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

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Fee and commission income** | | | | |
| *Fee and commission income relating to financial instruments not at fair value through profit or loss* | | | | |
| Credit cards and ATMs | 44,346 | 44,458 | 58,090 | 57,522 |
| Customer transaction accounts | 32,786 | 33,734 | 40,076 | 39,990 |
| *Other fee and commission income* | | | | |
| Payments | 28,898 | 30,219 | 54,214 | 54,579 |
| Guarantees | 9,785 | 10,530 | 14,743 | 16,031 |
| Investment funds | 2,762 | 1,768 | 10,574 | 8,317 |
| Agency of insurance products | 2,884 | 2,420 | 2,884 | 2,420 |
| Other services | 2,848 | 2,703 | 5,009 | 4,823 |
| **TOTAL** | **124,309** | **125,832** | **185,590** | **183,682** |
| **Fee and commission expenses** | | | | |
| *Fee and commission expenses relating to financial instruments not at fair value through profit or loss* | | | | |
| Credit cards and ATMs | 23,659 | 23,304 | 32,912 | 31,422 |
| *Other fee and commission expenses* | | | | |
| Payments | 777 | 751 | 4,640 | 4,417 |
| Investment banking | 239 | 142 | 741 | 502 |
| Guarantees | 275 | 2,200 | 362 | 2,293 |
| Deposit insurance | - | - | 8,395 | 7,900 |
| Insurance for holders of personal accounts and golden cards | 1,485 | 1,503 | 1,485 | 1,503 |
| Other services | 1,171 | 1,116 | 2,481 | 2,206 |
| **TOTAL** | **27,606** | **29,016** | **51,016** | **50,243** |
| **NET ACTIVITY FEE AND COMMISSION INCOME** | **96,703** | **96,816** | **134,574** | **133,439** |

Income from other services includes fees from non-banking deposit valuables and safe custody and other agency services.

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

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Fee and commission income related to fiduciary activities** | | | | |
| Receipt, processing and execution of orders | 1,044 | 463 | 1,054 | 535 |
| Management of financial instruments portfolio | 224 | 1,352 | 1,397 | 1,352 |
| Investment advice | 2 | 27 | 2 | 27 |
| Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis | 528 | 321 | 528 | 321 |
| Custody and similar services | 3,831 | 3,554 | 3,704 | 3,537 |
| Management of clients' account of non-materialized securities | 550 | 479 | 550 | 479 |
| Safekeeping of clients' financial instruments | 3 | 16 | 8 | 23 |
| Advice to companies on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of companies | 8 | 14 | 8 | 14 |
| **TOTAL** | **6,190** | **6,226** | **7,251** | **6,288** |
| **Fee and commission expenses related to fiduciary activities** | | | | |
| Fee and commission related to Central Securities Clearing Corporation and similar organizations | 2,100 | 1,925 | 2,134 | 1,905 |
| Fee and commission related to stock exchange and similar organizations | 55 | 37 | 62 | 40 |
| **TOTAL** | **2,155** | **1,962** | **2,196** | **1,945** |
| **NET FEE INCOME RELATED TO FIDUCIARY ACTIVITIES** | **4,035** | **4,264** | **5,055** | **4,343** |
| **Total fee and commission income** | **130,499** | **132,058** | **192,841** | **189,970** |
| **Total fee and commission expenses** | **29,761** | **30,978** | **53,212** | **52,188** |
| **TOTAL a) and b)** | **100,738** | **101,080** | **139,629** | **137,782** |

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

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Available-for-sale financial assets | | | | |
| *- gains* | *37,301* | *7,183* | *37,531* | *7,659* |
| *- losses* | *(18)* | *(213)* | *(23)* | *(664)* |
| Held-to-maturity financial assets | | | | |
| *- gains* | *-* | *133* | *-* | *133* |
| Financial liabilities measured at amortised cost | | | | |
| *- gains* | *-* | *257,890* | *-* | *257,890* |
| *- losses* | *(187)* | *-* | *(187)* | *-* |
| Loans and receivables | | | | |
| *- gains* | *-* | *-* | *92* | *4,946* |
| *- losses* | *-* | *(542,887)* | *-* | *(574,769)* |
| **TOTAL** | **37,096** | **(277,894)** | **37,413** | **(304,805)** |

Net foreign exchange translation gains on financial assets and liabilities not classified at fair value through profit or loss amounted to EUR 176 thousand at NLB d.d. in 2014 (2013: net losses of EUR 1,669 thousand) and net foreign exchange translation losses to EUR 1,770 thousand in the NLB Group (2013: net losses of EUR 2,524 thousand).

Realised losses from loans and receivables in 2013 in the amount of EUR 542,887 thousand relate to the transfer of loans and receivables to the Bank Assets Management Company (hereinafter: BAMC), and represent the difference between the carrying amount of loans prior to the transfer and consideration received (note 5.6.c).

Realised gains from financial liabilities measured at amortised cost in 2013 in the amount of EUR 257,601 thousand relate to the derecognition of subordinated instruments as imposed by and in accordance with the decision of the Bank of Slovenia, and represent gains from subordinated loans in the amount of EUR 163,617 thousand and gains from subordinated bonds in the amount of EUR 93,984 thousand (note 5.16.d).

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

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Equity instruments | | | | |
| *- gains* | *7,197* | *13,898* | *7,197* | *13,898* |
| *- losses* | *(7,184)* | *(13,152)* | *(7,184)* | *(13,152)* |
| Foreign exchange trading | | | | |
| *- gains* | *12,556* | *25,924* | *19,718* | *33,330* |
| *- losses* | *(8,929)* | *(22,573)* | *(9,798)* | *(23,745)* |
| Debt instruments | | | | |
| *- gains* | *3,164* | *613* | *3,166* | *613* |
| *- losses* | *(2,251)* | *(2,474)* | *(2,251)* | *(2,474)* |
| Derivatives | | | | |
| *- currency* | *1,177* | *1,217* | *1,171* | *596* |
| *- interest rate* | *(6,247)* | *(338)* | *(6,342)* | *57* |
| *- cross currency interest rate* | *(1,803)* | *939* | *(1,803)* | *939* |
| *- securities* | *(254)* | *(3,080)* | *(254)* | *(3,080)* |
| **TOTAL** | **(2,574)** | **974** | **3,620** | **6,982** |

## 4.6. Other operating income

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Income from non-banking services | 12,129 | 12,095 | 16,907 | 18,677 |
| *- IT services* | *6,305* | *6,296* | *6,305* | *6,296* |
| *- cash transportation* | *4,094* | *4,349* | *4,094* | *4,349* |
| *- operating leases of movable property* | *533* | *585* | *3,466* | *5,332* |
| *- other* | *1,197* | *865* | *3,042* | *2,700* |
| Sale of clients' assets management activity to NLB Skladi | 2,300 | - | - | - |
| Rental income from investment property | 82 | 94 | 5,109 | 4,685 |
| Revaluation of investment property to fair value (note 5.10.) | - | 15 | 67 | 142 |
| Other operating income | 4,503 | 3,210 | 7,460 | 5,614 |
| **TOTAL** | **19,014** | **15,414** | **29,543** | **29,118** |

## 4.7. Other operating expenses

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Expenses related to issued service guarantees | 6,881 | 9,219 | 6,881 | 9,219 |
| Balance sheet tax | 6,087 | 5,651 | 6,087 | 5,651 |
| Other taxes and compulsory public levies | 1,010 | 1,107 | 2,673 | 3,160 |
| Membership fees and similar fees | 611 | 734 | 1,501 | 1,532 |
| Revaluation of investment property to fair value (note 5.10.) | - | 206 | 3,895 | 8,302 |
| Other operating expenses | 1,214 | 879 | 2,931 | 3,494 |
| **TOTAL** | **15,803** | **17,796** | **23,968** | **31,358** |

## 4.8. Administrative expenses

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Employee costs** | | | | |
| - gross salaries, compensations and other short-term benefits | 87,741 | 94,617 | 138,511 | 148,178 |
| - defined contribution scheme | 6,787 | 7,486 | 11,326 | 12,819 |
| - social security contributions | 5,872 | 6,426 | 9,624 | 10,394 |
| - defined benefit expenses (note 5.17.c) | 2,021 | 2,570 | 3,453 | 4,011 |
| *- post-employment benefits* | *(454)* | *(796)* | *(578)* | *(669)* |
| *- other employee benefits* | *2,475* | *3,366* | *4,031* | *4,680* |
| **TOTAL** | **102,421** | **111,099** | **162,914** | **175,402** |
| **Other general and administrative expenses** | | | | |
| - other services | 28,544 | 31,418 | 41,058 | 42,990 |
| - maintenance | 11,971 | 12,566 | 15,499 | 15,848 |
| - intelectual services | 9,889 | 9,968 | 15,979 | 16,398 |
| - materials | 4,297 | 6,451 | 9,715 | 12,092 |
| - assets quality review (AQR) | 3,529 | 4,946 | 3,529 | 4,946 |
| - rents | 2,962 | 3,638 | 8,031 | 9,216 |
| *- property* | *1,439* | *2,007* | *6,104* | *7,369* |
| *- software* | *1,249* | *1,350* | *1,433* | *1,388* |
| *- movable property* | *274* | *281* | *494* | *459* |
| - advertising | 1,941 | 1,929 | 4,427 | 4,323 |
| - insurance | 1,646 | 2,076 | 3,504 | 4,036 |
| - education, scholarships and tuition fees | 908 | 769 | 1,158 | 1,046 |
| - travel costs | 651 | 777 | 1,345 | 1,539 |
| - other costs | 189 | 204 | 568 | 670 |
| **TOTAL** | **66,527** | **74,742** | **104,813** | **113,104** |
| **TOTAL ADMINISTRATIVE EXPENSES** | **168,948** | **185,841** | **267,727** | **288,506** |
| Number of employees | 3,093 | 3,425 | 6,448 | 6,912 |

Costs of other services include software maintenance costs, asset protection costs, asset management costs, archiving services and communication costs.

In 2014 NLB d.d. paid EUR 216 thousand (2013: EUR 251 thousand) and the NLB Group EUR 805 thousand (2013: EUR 604 thousand) to a statuary auditor for auditing the annual report. In addition, NLB d.d. and the NLB Group paid the following expenses to the statutory auditor:

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Other audit services | 73 | 151 | 73 | 183 |
| Tax and other consulting | - | - | 5 | 2 |
| Other non-audit services | - | - | 23 | 1,134 |
| **TOTAL** | **73** | **151** | **101** | **1,319** |

## 4.9. Depreciation and amortisation

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Amortisation of intangible assets (note 5.11.) | 14,206 | 14,500 | 16,006 | 20,993 |
| Depreciation of property and equipment (note 5.9.) | 10,150 | 12,098 | 19,770 | 23,339 |
| **TOTAL** | **24,356** | **26,598** | **35,776** | **44,332** |

## 4.10. Provisions for other liabilities and charges

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Guarantees and commitments (note 5.17.b) | 35,943 | 24,763 | 26,828 | 25,628 |
| Restructuring provisions (note 5.17.e) | - | 6,500 | 1,171 | 6,500 |
| Provisions for premiums from National Housing Saving Scheme (note 5.17.d) | 300 | 73 | 300 | 73 |
| Provisions for legal issues (note 5.17.f) | 584 | 430 | 2,156 | 2,537 |
| Other provisions (note 5.17.g) | (6,077) | 5,177 | (6,077) | 5,177 |
| **TOTAL** | **30,750** | **36,943** | **24,378** | **39,915** |

## 4.11. Impairment charge

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Impairment of financial assets** | | | | |
| Available-for-sale financial assets (note 5.4.b) | 836 | 23,842 | 960 | 23,842 |
| Debt securities (note 5.14.c) | - | 3,750 | - | 3,750 |
| Loans and advances to banks (note 5.14.b) | (9,945) | 10,180 | (5,132) | 14,562 |
| Loans to government (note 5.14.b) | (281) | 4,728 | 4,213 | 7,727 |
| Loans to financial organizations (note 5.14.b) | (5,195) | 88,793 | (5,662) | 39,654 |
| Loans to individuals (note 5.14.a) | 7,679 | 13,208 | 9,079 | 31,054 |
| *Granted overdrafts* | *3,241* | *7,783* | *3,573* | *8,487* |
| *Loans for houses and flats* | *1,839* | *4,604* | *(284)* | *2,777* |
| *Consumer loans* | *1,067* | *612* | *3,103* | *7,872* |
| *Other loans* | *1,532* | *209* | *2,687* | *11,918* |
| Loans to other customers (note 5.14.b) | 53,653 | 546,515 | 88,184 | 761,200 |
| *Loans to large corporate customers* | *24,430* | *380,679* | *39,294* | *457,558* |
| *Loans to small and medium size enterprises* | *29,223* | *165,836* | *48,890* | *303,642* |
| Other financial assets (note 5.14.d) | 2,394 | 12,567 | 2,383 | 17,990 |
| **TOTAL** | **49,141** | **703,583** | **94,025** | **899,779** |
| **Impairment of other assets** | | | | |
| Investments in subsidiaries | 13,085 | 406,700 | - | - |
| Investments in associates and joint ventures | (177) | 58,874 | - | 46,393 |
| Property and equipment (note 5.9.) | 27 | 19,881 | 6,576 | 22,770 |
| Intangible assets (note 5.11.) | - | - | 184 | 48,099 |
| Other assets | 245 | 306 | 16,276 | 13,237 |
| **TOTAL** | **13,180** | **485,761** | **23,036** | **130,499** |
| **TOTAL IMPAIRMENT** | **62,321** | **1,189,344** | **117,061** | **1,030,278** |

In 2014 NLB d.d. recognised an impairment of investments in subsidiaries included in the segment Non-core markets and activities in the amount of EUR 13,085 thousand, an impairment of investments in associates and joint ventures included in the segment Non-core markets and activities in the amount of EUR 271 thousand and EUR 448 thousand of the reversal of an impairment of investment in associates and joint ventures included the segment Non-core markets and activities. In 2013 NLB d.d. recognised EUR 213,518 thousand of impairment in subsidiaries included in the segment Core foreign markets, EUR 193,182 thousand of impairment in subsidiaries included in the segment Non-core markets and activities and EUR 58,874 thousand of impairment in investments in associates and joint ventures included in the amount for Non-core markets and activities.

In 2013 the NLB Group recognised EUR 46,393 thousand of impairment in investments in associates and joint ventures included in the segment Non-core markets and activities.

## 4.12. Income tax

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Current income tax | 1,503 | 1,454 | 4,918 | 3,870 |
| Deferred tax (note 5.18.) | (282) | 72,037 | (787) | 69,583 |
| **TOTAL** | **1,221** | **73,491** | **4,131** | **73,453** |

Income tax differs from the amount of tax determined by applying the Slovenian statutory tax rate as follows:

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Profit before tax | 82,750 | (1,466,787) | 69,199 | (1,368,691) |
| Tax calculated at prescribed rate 17% | 14,067 | (249,354) | 11,764 | (232,677) |
| Effect of change in tax rate in the reconciliation | - | (7,759) | - | (9,965) |
| Income not assessable for tax purposes | (2,786) | (1,365) | (1,516) | (470) |
| Expenses not deductible for tax purposes | 3,256 | 18,722 | 3,922 | 10,504 |
| Effect of unrecognised deferred tax assets on impairment of subsidiaries and associates | (4,547) | 38,958 | (4,745) | - |
| Tax allowances | (382) | (859) | (563) | (890) |
| Effect of unrecognised deferred tax assets on tax losses | - | - | 5,207 | 41,398 |
| Effects of different tax rates in other countries | - | - | (1,701) | (5,299) |
| Changes in recognition and measurement of deferred taxes | 8,958 | (24,600) | (3,840) | (24,600) |
| Withholding tax suffered in other countries for which no tax credit was available in Slovenia | 959 | 1,454 | 959 | 1,454 |
| Adjustment to tax in respect of prior periods | (900) | (714) | (900) | (714) |
| Other | (87) | 668 | (87) | 668 |
| Adjustment of deferred tax assets | (17,317) | 298,340 | (4,369) | 294,044 |
| **TOTAL** | **1,221** | **73,491** | **4,131** | **73,453** |

Tax rates within the NLB Group range from 9% to 30%. A tax rate of 17% was applied in Slovenia in 2013 and 2014.

The majority of non-taxable income relates to dividends and income deemed to be dividends. NLB d.d. excluded EUR 13,329 thousand in dividend income and income deemed to be dividends from its tax base in 2014 (2013: EUR 7,299 thousand).

Deferred tax assets were not recognised on temporary differences arising from the impairment of investments in subsidiaries amounting to EUR 515.413 thousand as at 31 December 2014 (31 December 2013: EUR 333,623 thousand). NLB d.d. has no intention of disposing these subsidiaries in the foreseeable future.

The NLB Group 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 5 years.

NLB d.d. recognised deferred tax assets accrued on the basis of temporary differences in an amount that is expected to be reversed in the foreseeable future (i.e. within five years), given future profit projections, therefore NLB d.d. recognised deferred tax income in an amount of EUR 17,317 thousand (31 December 2013: EUR 298,340 thousand) and for the NLB Group EUR 4,369 thousand (31 December 2013: EUR 294,044 thousand) (Note 5.18).

# 5. Notes to the statement of financial position

## 5.1. Cash, cash balances at central banks and other demand deposits at banks

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Cash | 106,146 | 97,864 | 196,835 | 198,209 |
| Balances and obligatory reserves with central banks | 117,696 | 276,911 | 508,630 | 744,448 |
| Demand deposits at banks | 210,596 | 215,870 | 422,062 | 307,943 |
| **TOTAL** | **434,438** | **590,645** | **1,127,527** | **1,250,600** |

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

## 5.2. Trading assets

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Derivatives, excluding hedging instruments** | | | | |
| Swap contracts | 34,895 | 31,040 | 34,299 | 30,540 |
| *- currency swaps* | *220* | *387* | *220* | *387* |
| *- interest rate swaps* | *34,437* | *29,721* | *33,841* | *29,221* |
| *- currency interest rate swaps* | *238* | *932* | *238* | *932* |
| Options | 119 | 126 | 119 | 126 |
| *- interest rate options* | - | *8* | - | *8* |
| *- securities options* | *119* | *118* | *119* | *118* |
| Forward contracts | 5,632 | 1,266 | 5,638 | 1,322 |
| *- currency forward* | *5,632* | *1,266* | *5,638* | *1,322* |
| **Total derivatives** | **40,646** | **32,432** | **40,056** | **31,988** |
| **Securities** | | | | |
| Bonds | 57,876 | 17,544 | 57,876 | 17,544 |
| *- Republic of Slovenia* | *40,421* | *8,817* | *40,421* | *8,817* |
| *- banks* | *9,652* | *1,014* | *9,652* | *1,014* |
| *- other issuers* | *7,803* | *7,713* | *7,803* | *7,713* |
| Shares | 22 | 16,985 | 22 | 16,985 |
| Treasury bills | 40,264 | 37,818 | 40,264 | 37,818 |
| *- Republic of Slovenia* | *40,264* | *30,021* | *40,264* | *30,021* |
| *- other EU members* | - | *7,797* | - | *7,797* |
| **Total securities** | **98,162** | **72,347** | **98,162** | **72,347** |
| **TOTAL** | **138,808** | **104,779** | **138,218** | **104,335** |
| - quoted securities | 95,186 | 52,722 | 95,186 | 52,722 |
| *of these equity instruments* | *22* | *266* | *22* | *266* |
| *of these debt instruments* | *95,164* | *52,456* | *95,164* | *52,456* |
| - unquoted securities | 2,976 | 19,625 | 2,976 | 19,625 |
| *of these equity instruments* | - | *16,719* | - | *16,719* |
| *of these debt instruments* | *2,976* | *2,906* | *2,976* | *2,906* |

The notional amounts of derivative financial instruments are disclosed in note 5.25.b).

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

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

in EUR thousand

| NLB d.d. and NLB Group | Carrying amount | Fair value |
|---|---|---|
| the date of reclassification | | 69,766 |
| as at 31 December 2009 | 72,030 | 65,278 |
| as at 31 December 2010 | 75,928 | 67,000 |
| as at 31 December 2011 | 84,429 | 55,922 |
| as at 31 December 2012 | 86,501 | 53,958 |
| as at 31 December 2013 | 80,218 | 55,260 |
| as at 31 December 2014 | 87,667 | 72,986 |

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

in EUR thousand

| NLB d.d. and NLB Group | Interest income in period | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Financial assets held for trading reclassified to loans and receivables | 2,103 | 2,153 | 2,449 | 3,446 | 4,471 | 2,836 |

in EUR thousand

| NLB d.d. and NLB Group | Gains/(losses) that would have been recognised if the assets had not been reclassified | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Financial assets held for trading reclassified to loans and receivables | 17,726 | 1,302 | (52) | (11,078) | 1,722 | (4,647) |

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

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

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Private equity fund | 4,702 | 3,801 | 4,702 | 3,801 |
| Other investments | - | - | 1,808 | 2,814 |
| **TOTAL** | **4,702** | **3,801** | **6,510** | **6,615** |

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

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Structured deposit | 4,701 | 3,800 | 4,701 | 3,800 |
| **TOTAL** | **4,701** | **3,800** | **4,701** | **3,800** |

In NLB d.d. financial assets in the amount of EUR 4,702 thousand (31 December 2013: EUR 3,801 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 4,701 thousand (31 December 2013: EUR 3,800 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 the NLB Group, in addition to the above-mentioned, 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. Available-for-sale financial assets

### a) Analysis by type of available-for-sale financial assets

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Bonds | 999,148 | 985,129 | 1,317,574 | 1,212,950 |
| - governments | 754,263 | 907,106 | 1,072,689 | 1,134,927 |
| *- Republic of Slovenia* | *450,279* | *789,019* | *527,096* | *842,035* |
| *- other EU members* | *303,984* | *118,087* | *335,840* | *187,023* |
| *- non-EU members* | - | - | *206,238* | *105,869* |
| - banks | 227,600 | 59,556 | 227,600 | 59,556 |
| - other issuers | 17,285 | 18,467 | 17,285 | 18,467 |
| Cash certificates | - | - | 35,521 | 81,374 |
| Shares | 29,815 | 75,322 | 32,861 | 77,769 |
| Treasury bills | 74,812 | 94,961 | 208,023 | 303,024 |
| *- Republic of Slovenia* | *74,812* | *44,981* | *74,812* | *65,530* |
| *- other EU members* | - | *49,980* | - | *67,968* |
| *- non-EU members* | - | - | *133,211* | *169,526* |
| Commercial bills | 78,973 | - | 78,973 | - |
| **TOTAL** | **1,182,748** | **1,155,412** | **1,672,952** | **1,675,117** |
| - quoted securities | 1,097,850 | 1,146,200 | 1,332,758 | 1,390,492 |
| *of these equity instruments* | *23,890* | *71,082* | *25,608* | *72,438* |
| *of these debt instruments* | *1,073,960* | *1,075,118* | *1,307,150* | *1,318,054* |
| - unquoted securities | 84,898 | 9,212 | 340,194 | 284,625 |
| *of these equity instruments* | *5,925* | *4,240* | *7,253* | *5,331* |
| *of these debt instruments* | *78,973* | *4,972* | *332,941* | *279,294* |

## b) Movements of available-for-sale financial assets

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 1,155,412 | 897,865 | 1,675,117 | 1,345,091 |
| Effects of translation of foreign operations to presentation currency | - | - | (4,305) | (1,912) |
| Additions | 718,196 | 278,631 | 2,221,432 | 1,983,968 |
| Equity increase (note 5.21.) | - | 409,999 | - | 409,999 |
| Disposals | (757,781) | (436,828) | (2,305,725) | (2,089,141) |
| Interest income (note 4.1.) | 26,221 | 24,154 | 43,527 | 42,635 |
| Exchange differences on monetary assets | 888 | (239) | 3,697 | 784 |
| Changes in fair values | 40,648 | 8,078 | 40,169 | 9,941 |
| Impairment (note 4.11.) | (836) | (23,842) | (960) | (23,842) |
| *- impairment of equity securities* | *(2,558)* | *(21,991)* | *(2,682)* | *(21,991)* |
| *- impairment of debt securities* | *1,722* | *(1,851)* | *1,722* | *(1,851)* |
| Transfer to BAMC | - | (2,406) | - | (2,406) |
| **Balance at 31 December** | **1,182,748** | **1,155,412** | **1,672,952** | **1,675,117** |

As at 31 December 2014, the value of equity instruments that the NLB d.d. and the NLB Group obtained by taking possession of collateral held as security and recognised in the statement of financial position is EUR 28,052 thousand (31 December 2013: EUR 67,677 thousand).

By selling equity securities available for sale, NLB d.d. realised a net gain in the amount of EUR 22,722 thousand (2013: EUR 4,770 thousand), and the NLB Group a net gain in the amount of EUR 22,917 thousand (2013: EUR 4,757 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.).

In 2013 NLB d.d. transferred to BAMC two available-for-sale investments in the total amount of EUR 2,406 thousand and realised losses in the amount of EUR 34 thousand.

## c) Accumulated other comprehensive income related to available-for-sale financial assets

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 10,690 | (2,385) | 17,520 | 3,632 |
| Effects of translation of foreign operations to presentation currency | - | - | (4) | (2) |
| Net (losses)/gains from changes in fair value | 77,908 | (1,119) | 77,522 | 744 |
| Losses transferred to net profit on disposal or impairment | (36,447) | 16,872 | (36,548) | 16,847 |
| Deferred income tax (note 5.18.) | (7,048) | (2,678) | (6,987) | (2,905) |
| Share of other comprehensive income of associates and joint ventures | - | - | 6,247 | (796) |
| **Balance at 31 December** | **45,103** | **10,690** | **57,750** | **17,520** |
| - debt securities | 34,084 | (858) | 45,419 | 5,092 |
| - equity securities | 11,019 | 11,548 | 12,331 | 12,428 |

## 5.5. Derivatives for hedging purposes

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

The 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 assets 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 line gains less losses from financial assets and liabilities held for trading.

### a) Fair value hedge

in EUR thousand

| NLB d.d. and NLB Group | Notional amount | Fair value | |
|---|---|---|---|
| | | Asset | Liability |
| Interest rate swap | | | |
| 31.12.2014 | 210,551 | 2,966 | 40,699 |
| 31.12.2013 | 275,098 | 5,426 | 33,835 |

In 2014 net losses on hedging instruments amounted to EUR 11,582 thousand in NLB d.d. and the NLB Group (2013: net gains to EUR 7,893 thousand in NLB d.d. and the NLB Group), net gains on hedged items in NLB d.d. and in the NLB Group were EUR 10,600 thousand (2013: net losses to EUR 8,019 thousand).

### b) Cash flow hedge

in EUR thousand

| NLB d.d. and NLB Group | Notional amount | Fair value | |
|---|---|---|---|
| | | Asset | Liability |
| Interest rate swap | | | |
| 31.12.2014 | 13,798 | - | 3,286 |
| 31.12.2013 | 19,393 | - | 2,684 |
| **Total a) and b)** | | | |
| **31.12.2014** | **224,349** | **2,966** | **43,985** |
| **31.12.2013** | **294,491** | **5,426** | **36,519** |

## Future cash flows

in EUR thousand

| NLB d.d. and NLB Group | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
|---|---|---|---|---|
| 31.12.2014 | | | | |
| - Outflow | (173) | (420) | (1,997) | (1,201) |
| - Inflow | 5 | 8 | 135 | 303 |
| 31.12.2013 | | | | |
| - Outflow | (287) | (499) | (2,142) | (1,638) |
| - Inflow | 19 | 37 | 609 | 1,126 |

## c) Accumulated other comprehensive income related to cash flow hedging

in EUR thousand

| NLB d.d. and NLB Group | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | (2,122) | (3,031) |
| Net (losses)/gains on hedging instruments | (1,334) | 218 |
| Transfer to income statement | 679 | 877 |
| Deferred income tax (note 5.18.) | 111 | (186) |
| **Balance at 31 December** | **(2,666)** | **(2,122)** |

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

## 5.6. Loans and advances

## Analysis by type of loans and advances

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Debt securities | 706,785 | 702,791 | 706,785 | 702,791 |
| Loans to banks | 159,300 | 160,569 | 271,340 | 224,590 |
| Loans and advances to customers | 4,993,040 | 5,426,129 | 6,708,332 | 7,041,430 |
| Other financial assets | 47,836 | 41,337 | 71,769 | 63,919 |
| **TOTAL** | **5,906,961** | **6,330,826** | **7,758,226** | **8,032,730** |

### a) Debt securities

### Analysis of debt securities by sector

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Government | 619,118 | 622,573 | 619,118 | 622,573 |
| Banks | - | 3,750 | - | 3,750 |
| Companies | 87,667 | 80,218 | 87,667 | 80,218 |
| | 706,785 | 706,541 | 706,785 | 706,541 |
| Allowance for impairment (note 5.14.c) | - | (3,750) | - | (3,750) |
| **TOTAL** | **706,785** | **702,791** | **706,785** | **702,791** |

Government bonds relate entirely to bonds of the BAMC received by NLB d.d. as consideration for assets transferred in December 2013 (notes 5.4.b, 5.6.c and 5.8.b). The aforementioned bonds have an original maturity of three and four years, and are guaranteed by the Slovenian government. They are classified as loans and receivables since the market for these bonds is not active.

### b) Loans and advances to banks

### Analysis by type of loans and advances

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Loans | 42,308 | 103,269 | 30,611 | 44,700 |
| Time deposits | 116,719 | 63,234 | 264,496 | 203,891 |
| Reverse sale and repurchase agreements | - | 4,616 | - | 4,616 |
| Purchased receivables | 955 | - | 955 | - |
| | 159,982 | 171,119 | 296,062 | 253,207 |
| Allowance for impairment (note 5.14.b) | (682) | (10,550) | (24,722) | (28,617) |
| **TOTAL** | **159,300** | **160,569** | **271,340** | **224,590** |

The NLB Group obtained securities received under repurchase agreements as collateral (it became the legal owner of the said securities), while the borrower is entitled to the associated coupon interest and dividends. In 2014 and 2013, the NLB Group did not sell or pledge any of the securities it had received as collateral during the financial years presented. The fair value of these securities as at 31 December 2013 amounted to EUR 8,034 thousand.

## c) Loans and advances to customers

### Analysis by type of loans and advances

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Loans | 5,724,194 | 6,214,369 | 7,557,867 | 7,939,372 |
| Finance lease receivables | - | - | 333,824 | 377,171 |
| Overdrafts | 195,739 | 215,100 | 322,243 | 349,253 |
| Credit card business | 60,152 | 59,922 | 111,847 | 112,734 |
| Called guarantees | 11,312 | 11,014 | 20,830 | 27,143 |
| Reverse sale and repurchase agreements | 25 | 25 | 25 | 25 |
| | 5,991,422 | 6,500,430 | 8,346,636 | 8,805,698 |
| Allowance for impairment (note 5.14.) | (998,382) | (1,074,301) | (1,638,304) | (1,764,268) |
| **TOTAL** | **4,993,040** | **5,426,129** | **6,708,332** | **7,041,430** |

The NLB Group obtained securities received under repurchase agreements as collateral (it became the legal owner of the said securities), while the borrower is entitled to the associated coupon interest and dividends. In 2014 and 2013, the NLB Group did not sell or pledge any of the securities it had received as collateral during the financial years presented. The fair value of these securities as at 31 December 2014 amounted to EUR 1,575 thousand (31 December 2013: EUR 1,047 thousand).

In accordance with the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act, NLB d.d. transferred loans with a carrying amount of EUR 1,155,352 thousand to the BAMC in December 2013. As consideration, NLB d.d. received BAMC bonds that are classified as loans and receivables (note 5.6.a). The effects of the transfer of loans are disclosed in note 4.4.

### Analysis of loans and advances by sector

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Government | 387,378 | 353,339 | 515,315 | 479,420 |
| Financial organizations | 548,731 | 655,236 | 154,132 | 169,421 |
| Companies | 2,172,931 | 2,559,379 | 3,235,583 | 3,676,507 |
| Individuals | 1,884,000 | 1,858,175 | 2,803,302 | 2,716,082 |
| **TOTAL** | **4,993,040** | **5,426,129** | **6,708,332** | **7,041,430** |

## Finance leases

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

in EUR thousand

| NLB Group | 31.12.2014 | 31.12.2013 |
|---|---|---|
| The gross investment in finance leases by maturity | | |
| - not later than 1 year | 185,102 | 197,262 |
| - later than 1 year and not later than 5 years | 156,025 | 173,260 |
| - later than 5 years | 28,848 | 50,064 |
| | **369,975** | **420,586** |
| Unearned future finance income on finance leases | (36,151) | (43,415) |
| **Net investment in finance leases** | **333,824** | **377,171** |
| - present value of minimum lease payments | 333,824 | 377,171 |
| The net investment in finance leases by maturity | | |
| - not later than 1 year | 174,053 | 186,526 |
| - later than 1 year and not later than 5 years | 133,837 | 148,060 |
| - later than 5 years | 25,934 | 42,585 |
| **TOTAL** | **333,824** | **377,171** |

The allowance for unrecoverable finance lease receivables included in the allowance for loan impairment amounted to EUR 132,216 thousand (31 December 2013: EUR 137,131 thousand).

Finance and operating lease transactions are carried out by the NLB Group through specialised subsidiaries that offer car leasing, real estate leasing, leasing of commercial and production equipment and others.

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

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

## d) Other financial assets

### Analysis by type of other financial assets

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Receivables from purchase agreements for equity securities | 29,554 | 42,517 | 29,554 | 42,517 |
| Receivables in the course of collection | 12,998 | 12,789 | 14,819 | 14,511 |
| Credit card receivables | 8,823 | 7,983 | 12,269 | 11,335 |
| Fees and commissions due | 5,701 | 5,093 | 7,747 | 7,281 |
| Debtors | 1,582 | 1,789 | 20,825 | 23,528 |
| Prepayments | - | - | 8,040 | 9,076 |
| Other financial assets | 6,699 | 8,810 | 21,195 | 21,755 |
| | 65,357 | 78,981 | 114,449 | 130,003 |
| Allowance for impairment (note 5.14.d) | (17,521) | (37,644) | (42,680) | (66,084) |
| **TOTAL** | **47,836** | **41,337** | **71,769** | **63,919** |

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 from pension funds for prior pension payments, receivables from insurance companies, deposit facilities, paid duties and legal costs.

### Analysis of other financial assets by sector

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Banks | 3,675 | 5,751 | 8,182 | 11,202 |
| Government | 1,848 | 1,570 | 11,195 | 2,140 |
| Financial organizations | 859 | 744 | 1,362 | 929 |
| Companies | 26,997 | 18,552 | 35,300 | 32,795 |
| Individuals | 14,457 | 14,720 | 15,730 | 16,853 |
| **TOTAL** | **47,836** | **41,337** | **71,769** | **63,919** |

## e) Movement of called non-financial guarantees

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Balance at 1 January | 4,922 | 25,327 | 9,776 | 29,817 |
| Effects of translation of foreign operations to presentation currency | - | - | (139) | (33) |
| Called guarantees | 1,368 | 14,273 | 3,770 | 14,868 |
| Paid guarantees | (575) | (1,703) | (4,846) | (1,901) |
| Transfer to BAMC | - | (32,661) | - | (32,661) |
| Write offs | (67) | (314) | (67) | (314) |
| **Balance at 31 December** | **5,648** | **4,922** | **8,494** | **9,776** |

Fee income from all issued non-financial guarantees amounted to EUR 6,164 thousand (2013: EUR 6,346 thousand) at NLB d.d. and to EUR 6,611 thousand (2013: EUR 6,810 thousand) at the NLB Group.

## 5.7. Held-to-maturity financial assets

### a) Analysis by type of held-to-maturity financial assets

in EUR thousand

| NLB d.d. and NLB Group | | |
|---|---|---|
| | 31.12.2014 | 31.12.2013 |
| Bonds | 691,765 | 728,308 |
| - governments | 624,051 | 660,788 |
| *- Republic of Slovenia* | *389,605* | *418,533* |
| *- other EU members* | *234,446* | *242,255* |
| - banks | 67,714 | 67,520 |
| Treasury bills of Republic of Slovenia | 19,883 | 135,951 |
| **TOTAL** | **711,648** | **864,259** |
| - quoted | 711,648 | 864,259 |
| - unquoted | - | - |

### b) Movements of held-to-maturity financial assets

in EUR thousand

| NLB d.d. and NLB Group | | |
|---|---|---|
| | 2014 | 2013 |
| Balance at 1 January | 864,259 | 1,041,105 |
| Additions | 79,977 | 132,054 |
| Decreases | (262,547) | (343,851) |
| Interest income (note 4.1.) | 29,861 | 34,767 |
| Decrease of interest income due to reclassification of available-for-sale to held-to-maturity financial assets | 98 | 184 |
| **Balance at 31 December** | **711,648** | **864,259** |

## 5.8. Non-current assets classified as held for sale

### a) Analysis by type of non-current assets classified as held for sale

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Property and equipment | 2,580 | 2,327 | 5,643 | 17,582 |
| **TOTAL** | **2,580** | **2,327** | **5,643** | **17,582** |

In 2014 the NLB Group did not recognise repossessed assets included in non-current assets classified as held for sale (31 December 2013: EUR 10,481 thousand).

## b) Movements of non-current assets classified as held for sale

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 2,327 | 16,216 | 17,582 | 21,824 |
| Effects of translation of foreign operations to presentation currency | - | - | (92) | - |
| Transfer to BAMC | - | (9,461) | - | (9,461) |
| Additions | - | - | 25 | - |
| Transfer from property and equipment (note 5.9.) | 2,550 | 1,253 | 2,550 | 1,253 |
| Transfer from investment property (note 5.10.) | - | - | - | 10,452 |
| Disposals | (515) | (184) | (11,489) | (349) |
| Valuation | (1,782) | (5,497) | (2,933) | (6,137) |
| **Balance at 31 December** | **2,580** | **2,327** | **5,643** | **17,582** |

In December 2013, NLB d.d. transferred to BAMC an equity investment in the amount of EUR 9,461 thousand. Realised losses from this transaction in the amount of EUR 2,160 thousand are included in the income statement in the line net losses from non-current assets held for sale.

## 5.9. Property and equipment

in EUR thousand

| 2014 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Land & Buildings | Computers | Other equipment | Total | Land & Buildings | Computers | Other equipment | Total |
| Cost | | | | | | | | |
| Balance at 1 January 2014 | 211,975 | 65,030 | 66,982 | 343,987 | 341,616 | 85,779 | 131,901 | 559,296 |
| Effects of translation of foreign operations to presentation currency | - | - | - | - | (1,677) | (174) | (335) | (2,186) |
| Additions | 566 | 1,561 | 553 | 2,680 | 2,965 | 3,221 | 4,033 | 10,219 |
| Disposals | (3,211) | (13,321) | (2,266) | (18,798) | (4,380) | (14,151) | (9,856) | (28,387) |
| Transfer to investment property (note 5.10.) | - | - | - | - | (199) | - | - | (199) |
| Transfer to non-current assets held for sale (note 5.8.) | (3,464) | - | - | (3,464) | (3,464) | - | - | (3,464) |
| Disposal of subsidiary | - | - | - | - | (291) | (17) | (18) | (326) |
| **Balance at 31 December 2014** | **205,866** | **53,270** | **65,269** | **324,405** | **334,570** | **74,658** | **125,725** | **534,953** |
| Depreciation and impairment | | | | | | | | |
| Balance at 1 January 2014 | 117,487 | 57,146 | 60,905 | 235,538 | 138,816 | 73,946 | 107,956 | 320,718 |
| Effects of translation of foreign operations to presentation currency | - | - | - | - | (416) | (136) | (261) | (813) |
| Disposals | (2,205) | (13,284) | (2,237) | (17,726) | (3,347) | (14,075) | (8,042) | (25,464) |
| Depreciation (note 4.9.) | 5,477 | 3,355 | 1,318 | 10,150 | 8,174 | 4,961 | 6,635 | 19,770 |
| Impairment (note 4.11.) | 27 | - | | 27 | 6,576 | - | - | 6,576 |
| Transfer to investment property (note 5.10.) | - | - | - | - | (66) | - | - | (66) |
| Transfer to non-current assets held for sale (note 5.8.) | (914) | - | - | (914) | (914) | - | - | (914) |
| Disposal of subsidiary (note 3.b) | - | - | - | - | - | (17) | (12) | (29) |
| **Balance at 31 December 2014** | **119,872** | **47,217** | **59,986** | **227,075** | **148,823** | **64,679** | **106,276** | **319,778** |
| Net carrying value | | | | | | | | |
| **Balance at 31 December 2014** | **85,994** | **6,053** | **5,283** | **97,330** | **185,747** | **9,979** | **19,449** | **215,175** |
| **Balance at 1 January 2014** | **94,488** | **7,884** | **6,077** | **108,449** | **202,800** | **11,833** | **23,945** | **238,578** |

in EUR thousand

| 2013 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Land & Buildings | Computers | Other equipment | Total | Land & Buildings | Computers | Other equipment | Total |
| Cost | | | | | | | | |
| Balance at 1 January 2013 | 214,840 | 87,763 | 72,805 | 375,408 | 344,279 | 107,911 | 150,964 | 603,154 |
| Effects of translation of foreign operations to presentation currency | - | - | - | - | (454) | (66) | (199) | (719) |
| Additions | 1,032 | 3,356 | 257 | 4,645 | 3,676 | 5,065 | 5,309 | 14,050 |
| Disposals | (364) | (26,089) | (6,080) | (32,533) | (2,388) | (27,131) | (24,173) | (53,692) |
| Transfer to investment property (note 5.10.) | - | - | - | - | 36 | - | - | 36 |
| Transfer to non-current assets held for sale (note 5.8.) | (1,938) | - | - | (1,938) | (1,938) | - | - | (1,938) |
| Impairment (note 4.11.) | (1,595) | - | - | (1,595) | (1,595) | - | - | (1,595) |
| **Balance at 31 December 2013** | **211,975** | **65,030** | **66,982** | **343,987** | **341,616** | **85,779** | **131,901** | **559,296** |
| Depreciation and impairment | | | | | | | | |
| Balance at 1 January 2013 | 93,816 | 79,374 | 62,978 | 236,168 | 111,121 | 95,377 | 109,796 | 316,294 |
| Effects of translation of foreign operations to presentation currency | - | - | - | - | (73) | (54) | (155) | (282) |
| Disposals | (1) | (26,052) | (4,276) | (30,329) | (91) | (27,104) | (11,927) | (39,122) |
| Depreciation (note 4.9.) | 6,071 | 3,824 | 2,203 | 12,098 | 8,685 | 5,727 | 8,927 | 23,339 |
| Impairment (note 4.11.) | 18,286 | - | - | 18,286 | 19,860 | - | 1,315 | 21,175 |
| Transfer to investment property (note 5.10.) | - | - | - | - | (1) | - | - | (1) |
| Transfer to non-current assets held for sale (note 5.8.) | (685) | - | - | (685) | (685) | - | - | (685) |
| **Balance at 31 December 2013** | **117,487** | **57,146** | **60,905** | **235,538** | **138,816** | **73,946** | **107,956** | **320,718** |
| Net carrying value | | | | | | | | |
| **Balance at 31 December 2013** | **94,488** | **7,884** | **6,077** | **108,449** | **202,800** | **11,833** | **23,945** | **238,578** |
| **Balance at 1 January 2013** | **121,024** | **8,389** | **9,827** | **139,240** | **233,158** | **12,534** | **41,168** | **286,860** |

Assets leased under finance leases in the NLB Group as at 31 December 2014 amounted to EUR 57 thousand for motor vehicles (31 December 2013: EUR 33 thousand). NLB d.d. had no assets held under finance leases as at 31 December 2014 and 31 December 2013.

The value of assets received by taking possession of collateral and included in property and equipment by NLB d.d. amounted to EUR 7 thousand (31 December 2013: EUR 7 thousand) and by the NLB Group amounted to EUR 267 thousand (31 December 2013: EUR 7 thousand).

The net carrying value of assets leased out by the NLB Group under operating leases was EUR 7,265 thousand as at 31 December 2014 (31 December 2013: EUR 18,908 thousand). 60.5% of assets leased out relates to motor vehicles (31 December 2013: 67.2%).

## 5.10. Investment property

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 1,458 | 1,702 | 34,844 | 67,753 |
| Effects of translation of foreign operations to presentation currency | - | - | (29) | (226) |
| Additions | - | - | 6,270 | 2,933 |
| Disposals | - | (53) | (68) | (560) |
| Transfer (to)/from property and equipment (note 5.9.) | - | - | 133 | (37) |
| Transfer to non-current assets held for sale (note 5.8.b) | - | - | - | (10,452) |
| Transfer from/(to) other assets | - | - | 4,150 | (16,407) |
| Net valuation to fair value (note 4.6. and 4.7.) | - | (191) | (3,828) | (8,160) |
| **Balance at 31 December** | **1,458** | **1,458** | **41,472** | **34,844** |

The NLB Group has no interests in properties held under operating leases that were classified and accounted for as investment property. The NLB Group incurred operating expenses arising from investment properties leased to others in the amount of EUR 50 thousand (2013: EUR 62 thousand), and operating expenses arising from investment properties not leased to others in the amount of EUR 23 thousand (2013: EUR 4 thousand).

The NLB Group earned rental income arising from investment properties in the amount of EUR 5,109 thousand (2013: EUR 4,685 thousand).

The value of assets received by taking possession of collateral and included in investment property by the NLB Group amounted to EUR 8,291 thousand (31 December 2013: EUR 701 thousand). NLB d.d. has no assets received by taking possession of collateral and included in investment property as at 31 December 2014 and 31 December 2013.

## 5.11. Intangible assets

in EUR thousand

| 2014 | NLB d.d. | NLB Group | | |
|---|---|---|---|---|
| | Software licenses | Software licenses | Goodwill | Total |
| Cost | | | | |
| Balance at 1 January 2014 | 185,878 | 206,086 | 32,520 | 238,606 |
| Effects of translation of foreign operations to presentation currency | - | (198) | - | (198) |
| Additions | 3,069 | 4,389 | - | 4,389 |
| Write offs | (96) | (140) | - | (140) |
| Disposal of subsidiary | - | - | (184) | (184) |
| **Balance at 31 December 2014** | **188,851** | **210,137** | **32,336** | **242,473** |
| Amortisation and impairment | | | | |
| Balance at 1 January 2014 | 140,902 | 155,072 | 28,807 | 183,879 |
| Effects of translation of foreign operations to presentation currency | - | (143) | - | (143) |
| Amortisation (note 4.9.) | 14,206 | 16,006 | - | 16,006 |
| Impairments (note 4.11.) | - | - | 184 | 184 |
| Write offs | - | (20) | - | (20) |
| Disposal of subsidiary | - | - | (184) | (184) |
| **Balance at 31 December 2014** | **155,108** | **170,915** | **28,807** | **199,722** |
| Net carrying value | | | | |
| **Balance at 31 December 2014** | **33,743** | **39,222** | **3,529** | **42,751** |
| **Balance at 1 January 2014** | **44,976** | **51,014** | **3,713** | **54,727** |

in EUR thousand

| 2013 | NLB d.d. | NLB Group | | | |
|---|---|---|---|---|---|
| | Software licenses | Software licenses | Goodwill | Customer relationship | Total |
| Cost | | | | | |
| Balance at 1 January 2013 | 179,565 | 200,000 | 32,520 | 71,980 | 304,500 |
| Effects of translation of foreign operations to presentation currency | - | (82) | - | - | (82) |
| Additions | 10,830 | 12,954 | - | - | 12,954 |
| Write offs | (4,517) | (6,786) | - | (71,980) | (78,766) |
| **Balance at 31 December 2013** | **185,878** | **206,086** | **32,520** | **-** | **238,606** |
| Amortisation and impairment | | | | | |
| Balance at 1 January 2013 | 129,324 | 143,977 | 11,064 | 36,966 | 192,007 |
| Effects of translation of foreign operations to presentation currency | - | (59) | - | - | (59) |
| Amortisation (note 4.9.) | 14,500 | 16,335 | - | 4,658 | 20,993 |
| Impairments (note 4.11.) | - | - | 17,743 | 30,356 | 48,099 |
| Write offs | (2,922) | (5,181) | - | (71,980) | (77,161) |
| **Balance at 31 December 2013** | **140,902** | **155,072** | **28,807** | **-** | **183,879** |
| Net carrying value | | | | | |
| **Balance at 31 December 2013** | **44,976** | **51,014** | **3,713** | **-** | **54,727** |
| **Balance at 1 January 2013** | **50,241** | **56,023** | **21,456** | **35,014** | **112,493** |

In 2014, the NLB Group recorded an impairment of goodwill in the amount of EUR 184 thousand (2013: 17,743 thousand). The NLB Group tested identified intangible assets (e.g. customer relationships) of subsidiaries for impairment and in 2013 recorded impairments in the amount of EUR 30,356 thousand. Impairment is primarily the result of lower recoverable amounts of investments, as well as the profitability associated with identified customer relationships.

Information regarding impairment testing of goodwill and other intangible assets is disclosed in note 2.32.f).

## 5.12. Investments in subsidiaries, associates and joint ventures

### a) Analysis by type of investment in subsidiaries

in EUR thousand

| NLB d.d. | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Banks | 259,039 | 248,968 |
| Other financial organizations | 23,012 | 4,003 |
| Enterprises | 63,534 | 16,421 |
| **TOTAL** | **345,585** | **269,392** |

According to the requirements of the IFRS and the internal methodology, the NLB d.d. calculated a recoverable amount of investments in subsidiaries, associates and joint ventures. Information regarding impairment testing of investments in subsidiaries, associates and joint ventures is disclosed in note 2.32.e).

In 2014 the NLB Group lost control in the subsidiaries Conet – v stečaju, Beograd and Plan, Banja Luka and recognised a loss in the amount of EUR 234 thousand.  This loss is included in gains less losses on derecogniton of assets other than held for sale.

## Data on subsidiaries as included in the consolidated financial statements of the NLB Group as at 31 December 2014:

in EUR thousand

| | Nature of Business | Country of Incorporation | Equity as at 31 December 2014 | Profit/(loss) for the period 2014 | NLB d.d.'s shareholding % | NLB d.d.'s voting rights% | NLB Group's shareholding % | NLB Group's voting rights% |
|---|---|---|---|---|---|---|---|---|
| **LHB AG, Frankfurt** | Finance | Republic of Germany | 2,598 | (1,396) | 100 | 100 | 100 | 100 |
| LHB Trade d.o.o. - u likvidaciji, Zagreb | Trade | Republic of Croatia | 19 | (123) | - | - | 100 | 100 |
| **NLB Tutunska Banka a.d., Skopje** | Banking | Republic of Macedonia | 108,379 | 11,149 | 86.97 | 86.97 | 86.97 | 86.97 |
| **NLB Montenegrobanka a.d., Podgorica** | Banking | Republic of Montenegro | 63,213 | 4,351 | 98.00 | 98.00 | 98.00 | 98.00 |
| **NLB banka a.d., Belgrade** | Banking | Republic of Serbia | 42,565 | (18,324) | 99.997 | 99.997 | 99.997 | 99.997 |
| Convest d.o.o., Novi Sad | Finance | Republic of Serbia | 331 | (2) | - | - | 100 | 100 |
| **NLB Banka d.d., Tuzla** | Banking | Republic of Bosnia and Herzegovina | 43,916 | 2,729 | 96.30 | 96.32 | 96.30 | 96.32 |
| **NLB Razvojna banka a.d., Banja Luka** | Banking | Republic of Bosnia and Herzegovina | 63,936 | 7,646 | 99.85 | 99.85 | 99.85 | 99.85 |
| **NLB Prishtina sh.a., Pristhina** | Banking | Republic of Kosovo | 51,454 | 5,435 | 81.21 | 81.21 | 81.21 | 81.21 |
| **NLB Leasing d.o.o., Ljubljana** | Finance | Republic of Slovenia | 14,629 | (5,187) | 100 | 100 | 100 | 100 |
| NLB Leasing Sofija E.o.o.d., Sofia | Finance | Republic of Bulgaria | (9) | (465) | - | - | 100 | 100 |
| Optima Leasing d.o.o., Zagreb | Finance | Republic of Croatia | 996 | (993) | - | - | 99.97 | 99.97 |
| **PRO-REM d.o.o., Ljubljana** | Finance | Republic of Slovenia | 24,280 | (10,728) | 100 | 100 | 100 | 100 |
| OL Nekretnine d.o.o., Zagreb | Real Estate | Republic of Croatia | (658) | (1,596) | - | - | 100 | 100 |
| **NLB Leasing Podgorica d.o.o., Podgorica** | Finance | Republic of Montenegro | 431 | (2,305) | 100 | 100 | 100 | 100 |
| **NLB Leasing d.o.o., Belgrade** | Finance | Republic of Serbia | 2,710 | (4,728) | 100 | 100 | 100 | 100 |
| **NLB Leasing d.o.o., Sarajevo** | Finance | Republic of Bosnia and Herzegovina | (2,304) | (3,048) | 100 | 100 | 100 | 100 |
| **NLB Lizing d.o.o.e.l., Skopje** | Finance | Republic of Macedonia | 2,045 | (384) | 100 | 100 | 100 | 100 |
| **NLB InterFinanz AG, Zürich** | Finance | Switzerland | (108,018) | (7,855) | 100 | 100 | 100 | 100 |
| NLB InterFinanz Praha s.r.o., Prague | Finance | Czech Republic | (49) | (117) | - | - | 100 | 100 |
| NLB InterFinanz d.o.o., Belgrade | Finance | Republic of Serbia | 38 | (3) | - | - | 100 | 100 |
| **NLB Factoring a.s. - "u likvidaci", Ostrava** | Finance | Czech Republic | (4,290) | (2,401) | 100 | 100 | 100 | 100 |
| **NLB Skladi d.o.o., Ljubljana** | Finance | Republic of Slovenia | 5,699 | 1,604 | 100 | 100 | 100 | 100 |
| **NLB Nov penziski fond a.d., Skopje** | Insurance | Republic of Macedonia | 5,918 | 691 | 51 | 100 | 100 | 100 |
| **NLB Crna Gora d.o.o., Podgorica** | Real estate | Republic of Montenegro | 517 | (1,010) | 100 | 100 | 100 | 100 |
| **FIN-DO d.o.o., Domžale** | Real estate | Republic of Slovenia | 141 | 14 | 100 | 100 | 100 | 100 |
| **NLB Propria d.o.o., Ljubljana** | Real estate | Republic of Slovenia | 11,112 | 171 | 100 | 100 | 100 | 100 |
| **NLB Srbija d.o.o., Belgrade** | Real estate | Republic of Serbia | 27,214 | (2,056) | 100 | 100 | 100 | 100 |
| **CBS Invest d.o.o., Sarajevo** | Real estate | Republic of Bosnia and Herzegovina | 2,039 | (18) | 100 | 100 | 100 | 100 |
| **Prospera plus d.o.o., Ljubljana** | Tourist and catering trade | Republic of Slovenia | 486 | (9) | 100 | 100 | 100 | 100 |

Data on subsidiaries as included in the consolidated financial statements of the NLB Group as at 31 December 2013:

in EUR thousand

| | Nature of Business | Country of Incorporation | Equity as at 31 December 2013 | Profit/(loss) for the period 2013 | NLB d.d.'s shareholding % | NLB d.d.'s voting rights% | NLB Group's shareholding % | NLB Group's voting rights% |
|---|---|---|---|---|---|---|---|---|
| **LHB AG, Frankfurt** | Finance | Republic of Germany | 3,990 | (4,890) | 100 | 100 | 100 | 100 |
| LHB Trade d.o.o. - u likvidaciji, Zagreb | Trade | Republic of Croatia | 92 | (475) | - | - | 100 | 100 |
| **NLB Tutunska Banka a.d., Skopje** | Banking | Republic of Macedonia | 96,842 | 10,116 | 86.97 | 86.97 | 86.97 | 86.97 |
| **NLB Montenegrobanka a.d., Podgorica** | Banking | Republic of Montenegro | 43,761 | (17,940) | 97.40 | 97.40 | 97.40 | 97.40 |
| **NLB banka a.d., Belgrade** | Banking | Republic of Serbia | 53,716 | (88,876) | 99.997 | 99.997 | 99.997 | 99.997 |
| Conet d.o.o. - u stečaju, Belgrade | Trade | Republic of Serbia | 235 | (53) | - | - | 94.85 | 94.85 |
| Convest d.o.o., Novi Sad | Finance | Republic of Serbia | 346 | 4 | - | - | 100 | 100 |
| **NLB Banka d.d., Tuzla** | Banking | Republic of Bosnia and Herzegovina | 41,205 | 2,172 | 96.30 | 96.32 | 96.30 | 96.32 |
| **NLB Razvojna banka a.d., Banja Luka** | Banking | Republic of Bosnia and Herzegovina | 60,437 | 6,158 | 99.85 | 99.85 | 99.85 | 99.85 |
| **NLB Prishtina sh.a., Pristhina** | Banking | Republic of Kosovo | 45,913 | 3,286 | 81.21 | 81.21 | 81.21 | 81.21 |
| **NLB Leasing d.o.o., Ljubljana** | Finance | Republic of Slovenia | 10,816 | (72,155) | 100 | 100 | 100 | 100 |
| NLB Leasing Sofija E.o.o.d., Sofia | Finance | Republic of Bulgaria | (6,545) | (668) | - | - | 100 | 100 |
| Optima Leasing d.o.o., Zagreb | Finance | Republic of Croatia | 1,995 | (23,266) | - | - | 99.97 | 99.97 |
| OL Nekretnine d.o.o., Zagreb | Real estate | Republic of Croatia | 937 | (264) | - | - | 100 | 100 |
| **NLB Leasing Podgorica d.o.o., Podgorica** | Finance | Republic of Montenegro | (2,565) | (2,121) | 100 | 100 | 100 | 100 |
| **NLB Leasing d.o.o., Belgrade** | Finance | Republic of Serbia | 1,100 | (2,632) | 100 | 100 | 100 | 100 |
| **NLB Leasing d.o.o., Sarajevo** | Finance | Republic of Bosnia and Herzegovina | (5,258) | (12,180) | 100 | 100 | 100 | 100 |
| **NLB Lizing d.o.o.e.l., Skopje** | Finance | Republic of Macedonia | 2,424 | 3 | 100 | 100 | 100 | 100 |
| **NLB InterFinanz AG, Zürich** | Finance | Switzerland | (98,012) | (118,759) | 100 | 100 | 100 | 100 |
| NLB InterFinanz Praha s.r.o., Prague | Finance | Czech Republic | 65 | (87) | - | - | 100 | 100 |
| NLB InterFinanz d.o.o., Belgrade | Finance | Republic of Serbia | 46 | (17) | - | - | 100 | 100 |
| **NLB Factoring a.s. - "u likvidaci", Ostrava** | Finance | Czech Republic | (1,927) | (4,154) | 100 | 100 | 100 | 100 |
| **NLB Skladi d.o.o., Ljubljana** | Finance | Republic of Slovenia | 4,096 | 883 | 100 | 100 | 100 | 100 |
| **Plan d.o.o., Banja Luka** | Architecture services | Republic of Bosnia and Herzegovina | 1,562 | 876 | 39.14 | 39.14 | 88.14 | 88.14 |
| **NLB Nov penziski fond a.d., Skopje** | Insurance | Republic of Macedonia | 5,207 | 866 | 51 | 100 | 100 | 100 |
| **NLB Crna Gora d.o.o., Podgorica** | Real estate | Republic of Montenegro | (15,173) | (15,173) | 100 | 100 | 100 | 100 |
| **FIN-DO d.o.o., Domžale** | Real estate | Republic of Slovenia | 127 | 38 | 100 | 100 | 100 | 100 |
| **NLB Propria d.o.o., Ljubljana** | Real estate | Republic of Slovenia | 10,945 | 15 | 100 | 100 | 100 | 100 |
| **NLB Srbija d.o.o., Belgrade** | Real estate | Republic of Serbia | 7,688 | 56 | 100 | 100 | 100 | 100 |
| **CBS Invest d.o.o., Sarajevo** | Real estate | Republic of Bosnia and Herzegovina | 2,036 | (74) | 100 | 100 | 100 | 100 |
| **Prospera plus d.o.o., Ljubljana** | Tourist and catering trade | Republic of Slovenia | 537 | 5 | 100 | 100 | 100 | 100 |

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

Changes in ownership interest in subsidiaries of the NLB Group in 2014 and 2013 are presented in note 3, significant effects of changes in ownership interests are presented in the statement of changes in equity in the item Equity attributable to non-controlling interest.

Data on subsidiaries with significant non-controlling interests, before intercompany eliminations

in EUR thousand

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | NLB Tutunska Banka, Skopje | NLB Prishtina, Priština | NLB Tutunska Banka, Skopje | NLB Prishtina, Priština |
| Non-controlling interest in equity in % | 13.03 | 18.79 | 13.03 | 18.79 |
| Non-controlling interest's voting rights in % | 13.03 | 18.79 | 13.03 | 18.79 |
| **Income statement and statement of comprehensive income** | | | | |
| Revenues | 73,817 | 31,977 | 71,188 | 31,121 |
| **Profit/(loss) for the year** | **11,149** | **5,435** | **10,116** | **3,286** |
| Atributable to non-controlling interest | (1,453) | (1,021) | (1,318) | (617) |
| Other comprehensive income | 34 | 106 | 28 | (347) |
| **Total comprehensive income** | **11,183** | **5,541** | **10,144** | **2,939** |
| Atributable to non-controlling interest | (1,457) | (1,041) | (1,322) | (552) |
| **Statement of financial position** | | | | |
| Current assets | 560,521 | 310,208 | 548,311 | 325,562 |
| Non-current assets | 485,265 | 153,293 | 410,133 | 138,533 |
| Current liabilities | 695,222 | 346,654 | 649,892 | 342,234 |
| Non-current liabilities | 242,185 | 65,393 | 211,710 | 75,948 |
| **Equity** | **108,379** | **51,454** | **96,842** | **45,913** |
| Atributable to non-controlling interest | 14,122 | 9,668 | 12,619 | 8,627 |

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

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Other financial organizations | 6,600 | 6,600 | 37,239 | 28,033 |
| Enterprises | 527 | 600 | 286 | 251 |
| **TOTAL** | **7,127** | **7,200** | **37,525** | **28,284** |

## The NLB Group's associates

| | | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | 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 | 28.13 | 28.13 |
| Kreditni biro SISBON, d.o.o., Ljubljana | Credit bureau | Republic of Slovenia | 29.68 | 29.68 | 29.68 | 29.68 |
| ARG - Nepremičnine d.o.o., Horjul | Property | Republic of Slovenia | 75.00 | 75.00 | 75.00 | 75.00 |
| Banka Celje d.d., Celje | Banking | Republic of Slovenia | - | - | 40.99 | 41.11 |
| Adria Bank AG, Vienna | Banking | Republic of Austria | - | - | 28.46 | 28.46 |
| ICJ d.o.o., Domžale | Real estate | Republic of Slovenia | - | - | 50.00 | 50.00 |

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

By contractual agreement NLB d.d. does not have control in ARG-Nepremičnine, Horjul, but only a significant influence and therefore the entity is accounted as an associate.

Carrying amount of interests in associates included in the consolidated financial statements of the NLB Group:

in EUR thousand

| | 2014 | 2013 |
|---|---|---|
| **Carrying amount of the NLB Group's interest** | **10,980** | **10,410** |
| NLB Group's share of: | | |
| - Profit for the year | 305 | (51) |
| - Other comprehensive income | 266 | 252 |
| **- Total comprehensive income** | **571** | **201** |

In 2014 the NLB Group did not recognise a share of profit of an associate in amount of EUR 123 thousand (31 December 2013: unrecognized loss EUR 633 thousand). The cumulative unrecognised share of losses of an associate of the NLB Group as at 31 December 2014 amounted to EUR 2,506 thousand (31 December 2013: EUR 2,629 thousand).

## The NLB Group's joint ventures

| | | | 2014 | 2013 |
|---|---|---|---|---|
| | 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 |

Data on material joint ventures as included in the consolidated financial statements of the NLB Group:

in EUR thousand

| **NLB Vita d.d., Ljubljana** | | |
|---|---|---|
| | 2014 | 2013 |
| Revenues | 63,337 | 51,415 |
| Interest income | 6,180 | 5,097 |
| Interest expense | (2) | (1) |
| Depreciation and amortisation | (233) | (146) |
| Income tax | (1,071) | (1,007) |
| **Profit for the year** | **5,603** | **5,371** |
| Other comprehensive income | 11,740 | 1 |
| **Total comprehensive income** | **17,343** | **5,372** |
| NLB Group's share of: | | |
| - Profit for the year | 2,802 | 2,686 |
| - Other comprehensive income | 5,870 | 0,5 |
| | | |
| | 31.12.2014 | 31.12.2013 |
| Total assets | 343,766 | 286,408 |
| Cash and cash equivalents | 270 | 345 |
| Total liabilities | 290,676 | 250,661 |
| Financial liabilities | 2,884 | 4,037 |
| **Equity** | **53,090** | **35,747** |
| NLB Group's ownership interest in joint venture | 26,545 | 17,874 |
| **Carrying amount of the NLB Group's interest in associate** | **26,545** | **17,874** |

### c) Movements of investments in associates and joint ventures

in EUR thousand

| NLB Group | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | 28,284 | 102,222 |
| Effects of translation of foreign operations to presentation currency | - | 53 |
| Share of results before tax | 3,781 | (23,258) |
| Share of tax | (675) | (3,211) |
| Net gains/(losses) not recognised in the income statement | 6,136 | (796) |
| Dividends received | - | (337) |
| Impairment (note 4.11.) | - | (46,393) |
| Other | (1) | 4 |
| **Balance at 31 December** | **37,525** | **28,284** |

## 5.13. Other assets

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Deferred expenses | 2,686 | 1,965 | 4,790 | 4,125 |
| Claim for taxes and other dues | 2,596 | 658 | 3,379 | 2,908 |
| Assets, received as collateral | 1,561 | 1,632 | 116,606 | 131,180 |
| Prepayments | 871 | 16 | 2,707 | 915 |
| Inventories | 269 | 270 | 12,637 | 23,364 |
| **TOTAL** | **7,983** | **4,541** | **140,119** | **162,492** |

Assets received as collateral and inventories consist of real estate, motor vehicles and equipment.

## 5.14. Movements in allowance for the impairment of banks, loans and advances to customers and other financial assets

## a) Loans and advances to individuals

in EUR thousand

| NLB d.d. | Granted overdrafts | Loans for houses and flats | Consumer loans | Other loans | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2013 | 13,178 | 26,205 | 31,547 | 3,733 | 74,663 |
| Impairment (note 4.11.) | 7,783 | 4,604 | 612 | 209 | 13,208 |
| Write offs | (5,168) | (657) | (6,931) | (524) | (13,280) |
| Exchange differences | - | (33) | - | (33) | (66) |
| Repayments of written-off recievables | 210 | 26 | 86 | 27 | 349 |
| **Balance at 31 December 2013** | **16,003** | **30,145** | **25,314** | **3,412** | **74,874** |
| Impairment (note 4.11.) | 3,241 | 1,839 | 1,067 | 1,532 | 7,679 |
| Write offs | (3,300) | (508) | (3,849) | (385) | (8,042) |
| Exchange differences | - | 56 | - | 42 | 98 |
| Repayments of written-off recievables | 119 | 9 | 57 | 12 | 197 |
| **Balance at 31 December 2014** | **16,063** | **31,541** | **22,589** | **4,613** | **74,806** |

in EUR thousand

| NLB Group | Granted overdrafts | Loans for houses and flats | Consumer loans | Other loans | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2013 | 15,701 | 45,842 | 59,971 | 26,025 | 147,539 |
| Effects of translation of foreign operations to presentation currency | (13) | (37) | (61) | (75) | (186) |
| Impairment (note 4.11.) | 8,487 | 2,777 | 7,872 | 11,918 | 31,054 |
| Write offs | (5,203) | (664) | (7,163) | (7,387) | (20,417) |
| Exchange differences | 1 | (49) | (3) | (102) | (153) |
| Repayments of written-off recievables | 210 | 26 | 86 | 769 | 1,091 |
| **Balance at 31 December 2013** | **19,183** | **47,895** | **60,702** | **31,148** | **158,928** |
| Effects of translation of foreign operations to presentation currency | (58) | (107) | (148) | 135 | (178) |
| Impairment (note 4.11.) | 3,573 | (284) | 3,103 | 2,687 | 9,079 |
| Repayments of written-off recievables | 119 | 9 | 57 | 359 | 544 |
| Write offs | (3,352) | (513) | (4,572) | (5,496) | (13,933) |
| Exchange differences | 3 | 191 | 23 | 16 | 233 |
| Other | - | - | (14) | - | (14) |
| **Balance at 31 December 2014** | **19,468** | **47,191** | **59,151** | **28,849** | **154,659** |

## b) Loans and advances to legal entities

in EUR thousand

| NLB d.d. | Loans and advances to government | Loans and advances to banks | Loans and advances to financial organizations | Loans and advances to large corporate customers | Loans and advances to small and medium size enterprises | Total |
|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 1,332 | 385 | 177,366 | 407,402 | 706,808 | 1,293,293 |
| Impairment (note 4.11.) | 4,728 | 10,180 | 88,793 | 380,679 | 165,836 | 650,216 |
| Write offs | - | - | (36) | (25,262) | (39,363) | (64,661) |
| Exchange differences | - | (15) | (1,392) | (2,396) | (1,044) | (4,847) |
| Repayments of written-off recievables | - | - | - | 510 | 222 | 732 |
| Transfer to BAMC (note 5.6.c) | - | - | (67,625) | (453,798) | (355,632) | (877,055) |
| Other | - | - | - | 653 | 11,646 | 12,299 |
| **Balance at 31 December 2013** | **6,060** | **10,550** | **197,106** | **307,788** | **488,473** | **1,009,977** |
| Impairment (note 4.11.) | (281) | (9,945) | (5,195) | 24,430 | 29,223 | 38,232 |
| Write offs | - | - | (27,818) | (23,401) | (75,153) | (126,372) |
| Exchange differences | - | 77 | 118 | (682) | (815) | (1,302) |
| Repayments of written-off recievables | - | - | 2 | 523 | 625 | 1,150 |
| Other | - | - | - | - | 2,573 | 2,573 |
| **Balance at 31 December 2014** | **5,779** | **682** | **164,213** | **308,658** | **444,926** | **924,258** |

in EUR thousand

| NLB Group | Loans and advances to government | Loans and advances to banks | Loans and advances to financial organizations | Loans and advances to large corporate customers | Loans and advances to small and medium size enterprises | Total |
|---|---|---|---|---|---|---|
| Balance at 1 January 2013 | 7,902 | 14,390 | 95,670 | 517,782 | 1,137,093 | 1,772,837 |
| Effects of translation of foreign operations to presentation currency | (8) | (206) | 1 | (1,457) | (3,672) | (5,342) |
| Impairment (note 4.11.) | 7,727 | 14,562 | 39,654 | 457,558 | 303,642 | 823,143 |
| Write offs | - | (45) | (254) | (39,305) | (40,615) | (80,219) |
| Exchange differences | 8 | (84) | (1) | (856) | (1,064) | (1,997) |
| Repayments of written-off recievables | | - | - | 2,368 | 222 | 2,590 |
| Transfer to BAMC (note 5.6.c) | - | - | (67,625) | (453,798) | (355,632) | (877,055) |
| **Balance at 31 December 2013** | **15,629** | **28,617** | **67,445** | **482,292** | **1,039,974** | **1,633,957** |
| Effects of translation of foreign operations to presentation currency | 4 | 419 | 1 | 194 | (2,080) | (1,462) |
| Impairment (note 4.11.) | 4,213 | (5,132) | (5,662) | 39,294 | 48,890 | 81,603 |
| Repayments of written-off recievables | - | - | 3 | 991 | 630 | 1,624 |
| Write offs | (906) | (12) | (23,314) | (37,435) | (148,231) | (209,898) |
| Exchange differences | (24) | 830 | 8 | (962) | 644 | 496 |
| Other | - | - | - | - | 2,047 | 2,047 |
| **Balance at 31 December 2014** | **18,916** | **24,722** | **38,481** | **484,374** | **941,874** | **1,508,367** |

## c) Debt securities

in EUR thousand

| NLB d.d. and NLB Group | |
|---|---|
| Balance at 1 January 2013 | - |
| Impairment (note 4.11.) | 3,750 |
| **Balance at 31 December 2013** | **3,750** |
| Write offs | (3,750) |
| **Balance at 31 December 2014** | - |

## d) Other financial assets

in EUR thousand

| | NLB d.d. | NLB Group |
|---|---|---|
| Balance at 1 January 2013 | 25,843 | 51,051 |
| Effects of translation of foreign operations to presentation currency | - | (138) |
| Impairment (note 4.11.) | 12,567 | 17,990 |
| Write offs | (617) | (2,628) |
| Exchange differences | (149) | (191) |
| **Balance at 31 December 2013** | **37,644** | **66,084** |
| Effects of translation of foreign operations to presentation currency | - | (196) |
| Disposal of subsidiaries | - | (8) |
| Impairment (note 4.11.) | 2,394 | 2,383 |
| Write offs | (12,836) | (16,051) |
| Exchange differences | 1 | 146 |
| Repayments of written-off recievables | 5 | 9 |
| Derecogniton of financial assets | (9,687) | (9,687) |
| **Balance at 31 December 2014** | **17,521** | **42,680** |

## 5.15. Trading liabilities

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Derivatives, excluding hedges** | | | | |
| Swap contracts | 34,015 | 28,738 | 34,009 | 28,737 |
| *- currency swaps* | *270* | *1,049* | *264* | *1,048* |
| *- interest rate swaps* | *31,979* | *27,557* | *31,979* | *27,557* |
| *- currency interest rate swaps* | *1,766* | *132* | *1,766* | *132* |
| Options | 4,190 | 3,923 | 4,190 | 3,923 |
| *- interest rate options* | *19* | *7* | *19* | *7* |
| *- securities options* | *4,171* | *3,916* | *4,171* | *3,916* |
| Forward contracts | 5,559 | 1,403 | 5,559 | 1,403 |
| *- currency forward* | *5,559* | *1,403* | *5,559* | *1,403* |
| **TOTAL** | **43,764** | **34,064** | **43,758** | **34,063** |

The notional amounts of derivative financial instruments are disclosed in note 5.25.b).

## 5.16. Financial liabilities, measured at amortised cost

### Analysis by type of financial liabilities, measured at amortised cost

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Deposits from banks and central banks | 91,115 | 74,266 | 62,334 | 37,457 |
| Borrowings from banks and central banks | 643,578 | 2,261,739 | 714,722 | 2,386,208 |
| Due to customers | 6,294,925 | 5,743,673 | 8,943,832 | 8,257,077 |
| Borrowings from other customers | 33,511 | 36,284 | 136,660 | 162,309 |
| Debt securities in issue | 359,853 | 68,782 | 359,853 | 68,782 |
| Subordinated liabilities | - | - | 17,328 | 21,874 |
| Other financial liabilities | 46,223 | 61,609 | 71,886 | 86,609 |
| **TOTAL** | **7,469,205** | **8,246,353** | **10,306,615** | **11,020,316** |

### a) Deposits from banks and amounts due to customers

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Deposits on demand | | | | |
| - banks and central banks | 87,742 | 69,264 | 57,138 | 30,428 |
| - other customers | 3,253,716 | 2,853,447 | 4,471,316 | 3,885,588 |
| *- governments* | *30,075* | *39,472* | *123,105* | *112,469* |
| *- financial organizations* | *26,939* | *22,410* | *58,321* | *48,957* |
| *- companies* | *781,821* | *640,384* | *1,259,056* | *1,069,849* |
| *- individuals* | *2,414,881* | *2,151,181* | *3,030,834* | *2,654,313* |
| Other deposits | | | | |
| - banks and central banks | 3,373 | 5,002 | 5,196 | 7,029 |
| - other customers | 3,041,209 | 2,890,226 | 4,472,516 | 4,371,489 |
| *- governments* | *441,548* | *105,203* | *457,207* | *120,110* |
| *- financial organizations* | *114,877* | *89,517* | *146,744* | *128,100* |
| *- companies* | *388,599* | *505,166* | *567,154* | *716,658* |
| *- individuals* | *2,096,185* | *2,190,340* | *3,301,411* | *3,406,621* |
| **TOTAL** | **6,386,040** | **5,817,939** | **9,006,166** | **8,294,534** |

### b) Borrowings from banks and other customers

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Loans | | | | |
| - banks and central banks | 643,578 | 2,261,739 | 714,722 | 2,386,208 |
| - other customers | 33,511 | 36,284 | 136,660 | 162,309 |
| *- governments* | *10,012* | *10,015* | *30,400* | *25,316* |
| *- financial organizations* | *20,181* | *20,183* | *99,940* | *130,907* |
| *- companies* | *3,318* | *6,086* | *6,320* | *6,086* |
| **TOTAL** | **677,089** | **2,298,023** | **851,382** | **2,548,517** |

## c) Debt securities in issue

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Carrying amount of issued securities | | | | |
| - traded on active markets | 359,853 | 68,782 | 359,853 | 68,782 |
| Bonds (in %) | | | | |
| - fixed rated | 100.00 | 100.00 | 100.00 | 100.00 |
| | **100.00** | **100.00** | **100.00** | **100.00** |

NLB d.d. issued in 2014 three year unsecured bond with nominal value EUR 300 million and annual coupon 2.875% on the international capital markets. The bond, which was awarded international ratings BB-/BB- by rating agencies Fitch and Standard & Poors, is listed on Luxemburg Stock Exchange.

## d) Subordinated liabilities

in EUR thousand

| **NLB Group** | | | | 31.12.2014 | | 31.12.2013 | |
|---|---|---|---|---|---|---|---|
| | Currency | Due date | Interest rate | Carrying amount | Nominal value | Carrying amount | Nominal value |
| **Subordinated loans** | | | | | | | |
| | EUR | 30.12.2014 | 6 months EURIBOR + 5.1% p.a. to 22.03.2014, thereafter 6 months EURIBOR + 8.5% p.a. | - | - | 4,568 | 4,500 |
| | EUR | 30.6.2018 | 6 months EURIBOR + 4.2% p.a. to 22.09.2013, thereafter 6 months EURIBOR + 6.3% p.a. | 12,174 | 12,000 | 12,136 | 12,000 |
| | EUR | 30.6.2020 | 6 months EURIBOR + 5.7% p.a. to 30.6.2015, thereafter 6 months EURIBOR + 7.7% p.a. | 5,154 | 5,000 | 5,170 | 5,000 |
| **TOTAL** | | | | **17,328** | **17,000** | **21,874** | **21,500** |

In December 2013, NLB d.d. received the decision of the Bank of Slovenia on extraordinary measures. Those measures included the termination of NLB d.d.'s liabilities from all existing subordinated instruments, including hybrid instruments of additional Tier I capital and subordinated debt of additional Tier I capital. In accordance with the decision of the Bank of Slovenia, NLB d.d. derecognised all subordinated liabilities and recognised effects in the Income statement item Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss in the amount of EUR 257,601 thousand (note 4.4.).

## e) Other financial liabilities

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Debit or credit card payables | 14,024 | 13,580 | 15,322 | 14,644 |
| Suppliers | 8,065 | 10,486 | 10,787 | 13,027 |
| Accrued salaries | 7,110 | 8,784 | 8,430 | 9,975 |
| Items in the course of payment | 6,941 | 13,614 | 18,178 | 23,735 |
| Accrued expenses | 5,733 | 4,628 | 11,643 | 10,207 |
| Fees and commissions due | 1,389 | 815 | 1,424 | 838 |
| Liabilities to brokerage firms and others for securities purchase | - | 1,047 | - | 1,047 |
| Other financial liabilities | 2,961 | 8,655 | 6,102 | 13,136 |
| **TOTAL** | **46,223** | **61,609** | **71,886** | **86,609** |

Other financial liabilities mainly include liabilities to insurance companies, received warranties and temporary accounts.

## 5.17. Provisions

### a) Analysis by type of provisions

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Provisions for financial guarantees (note 5.25.a) | 46,023 | 11,303 | 48,733 | 18,112 |
| Provisions for non-financial guarantees (note 5.25.a) | 31,568 | 36,270 | 32,876 | 38,075 |
| Provisions for other credit commitments (note 5.25.a) | 11,212 | 6,952 | 11,190 | 11,424 |
| Employee benefit provisions | 15,741 | 11,842 | 18,995 | 15,425 |
| Provisions for premiums from National Housing Saving Scheme | 733 | 877 | 733 | 877 |
| Restructuring provisions | 5,824 | 10,866 | 5,871 | 11,803 |
| Provisions for legal issues | 1,666 | 1,094 | 6,774 | 5,327 |
| Other provisions | 1,798 | 7,876 | 1,802 | 7,880 |
| **TOTAL** | **114,565** | **87,080** | **126,974** | **108,923** |

### b) Movements in provisions for guarantees and commitments

### Financial guarantees

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 11,303 | 3,488 | 18,112 | 10,046 |
| Effects of translation of foreign operations to presentation currency | - | - | (49) | (37) |
| Additional provisions/provisions released (note 4.10.) | 36,480 | 7,817 | 32,361 | 8,101 |
| Utilised during year | (1,763) | - | (1,763) | - |
| Exchange differences | 3 | (2) | 72 | 2 |
| **Balance at 31 December** | **46,023** | **11,303** | **48,733** | **18,112** |

### Non-financial guarantees

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 36,270 | 24,991 | 38,075 | 25,850 |
| Effects of translation of foreign operations to presentation currency | - | - | (25) | (15) |
| Additional provisions/provisions released (note 4.10.) | (4,720) | 11,278 | (5,220) | 12,239 |
| Exchange differences | 18 | 1 | 46 | 1 |
| **Balance at 31 December** | **31,568** | **36,270** | **32,876** | **38,075** |

### Other credit commitments

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 6,952 | 1,285 | 11,424 | 6,152 |
| Effects of translation of foreign operations to presentation currency | - | - | 1 | (15) |
| Additional provisions/provisions released (note 4.10.) | 4,183 | 5,668 | (313) | 5,288 |
| Exchange differences | 77 | (1) | 78 | (1) |
| **Balance at 31 December** | **11,212** | **6,952** | **11,190** | **11,424** |

## c) Movements in employee benefit provisions

### Post-employment benefits

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 7,071 | 8,017 | 8,903 | 35,223 |
| Effects of translation of foreign operations to presentation currency | - | - | (13) | (1) |
| Additional provisions (note 4.8.) | 300 | 108 | 453 | 548 |
| Provisions released (note 4.8.) | (754) | (904) | (1,031) | (1,217) |
| Interest expenses (note 4.1.) | 508 | 123 | 684 | 171 |
| Utilised during year (payments) | (146) | (273) | (377) | (25,821) |
| Actuarial gains and losses | 3,946 | - | 3,656 | - |
| **Balance at 31 December** | **10,925** | **7,071** | **12,275** | **8,903** |

### Other employee benefits

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 4,771 | 4,396 | 6,522 | 6,029 |
| Effects of translation of foreign operations to presentation currency | - | - | (10) | (2) |
| Additional provisions (note 4.8.) | 3,005 | 3,576 | 4,576 | 5,061 |
| Provisions released (note 4.8.) | (530) | (210) | (545) | (381) |
| Interest expenses (note 4.1.) | 145 | 34 | 203 | 40 |
| Utilised during year | (2,575) | (3,025) | (4,026) | (4,225) |
| **Balance at 31 December** | **4,816** | **4,771** | **6,720** | **6,522** |

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

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

in EUR thousand

| NLB d.d. and NLB Group | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | 877 | 1,322 |
| Additional provisions (note 4.10.) | 300 | 73 |
| Utilised during year | (444) | (518) |
| **Balance at 31 December** | **733** | **877** |

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

## e) Movements in restructuring provisions

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 10,866 | 5,950 | 11,803 | 10,162 |
| Additional provisions (note 4.10.) | - | 6,500 | 1,342 | 6,500 |
| Provisions released (note 4.10.) | - | - | (171) | - |
| Utilised during year | (5,042) | (1,584) | (7,103) | (4,859) |
| **Balance at 31 December** | **5,824** | **10,866** | **5,871** | **11,803** |

Cash flows associated with the restructuring provisions are expected in the next year.

## f) Movements in provisions for legal issues

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 1,094 | 1,263 | 5,327 | 3,445 |
| Effects of translation of foreign operations to presentation currency | - | - | (137) | (23) |
| Additional provisions (note 4.10.) | 669 | 438 | 4,575 | 3,232 |
| Provisions released (note 4.10.) | (85) | (8) | (2,419) | (695) |
| Utilised during year | (9) | (590) | (569) | (621) |
| Exchange differences | (3) | (9) | (3) | (11) |
| **Balance at 31 December** | **1,666** | **1,094** | **6,774** | **5,327** |

As at 31 December 2014, NLB d.d. was involved in 31 (31 December 2013: 32) legal disputes with material monetary claims against NLB d.d. The total amount of these claims, excluding accrued interest, was EUR 450,877 thousand (31 December 2013: EUR 457,628 thousand). As at 31 December 2014, the NLB Group was involved in 43 (31 December 2013: 36) legal disputes with material claims against group members in the total amount of EUR 581,249 thousand, excluding accrued interest (31 December 2013: EUR 534,715 thousand).

The above amounts include claims in the amount of EUR 172,815 thousand, excluding accrued interest (31 December 2013: EUR 170,249 thousand) related to deposits of Croatian savers in LB Glavna Filiala Zagreb that arise from the beginning of the 1990s. NLB d.d. has always opposed the claims for a variety of reasons, both process reasons and in terms of substance (merit). One important reason is the fact that NLB d.d. was established based on a constitutional law and in relation to the mentioned claims cannot be seen as the legal successor of LB. The other key argument of NLB d.d. is the fact this is a matter of succession of former Yugoslavia, which was confirmed by a Memorandum signed in 2013 between the Republic of Slovenia and the Republic of Croatia by their official representatives.

Provisions at NLB d.d. in the amount of EUR 1,666 thousand (31 December 2013: EUR 1,094 thousand) and at the NLB Group in the amount of EUR 6,774 thousand (31 December 2013: EUR 5,327 thousand) are recognised based on expectations regarding the probable outcome of legal disputes.

## g) Movements in other provisions

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at 1 January | 7,876 | 2,715 | 7,880 | 2,732 |
| Additional provisions (note 4.10.) | - | 5,177 | - | 5,177 |
| Provisions released (note 4.10.) | (6,077) | - | (6,077) | - |
| Utilised during year | (1) | (16) | (1) | (29) |
| **Balance at 31 December** | **1,798** | **7,876** | **1,802** | **7,880** |

Other provisions mainly relate to payments from the sale of financial assets and to claims for additional interest relating to retail savings and deposits.

## 5.18. Deferred income tax

### a) Analysis by type of deferred income taxes

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Deferred income tax assets** | | | | |
| Valuation of financial instruments and capital investments | 53,819 | 67,233 | 53,865 | 67,265 |
| Impairment provisions | 3,874 | 3,914 | 28,787 | 20,986 |
| Employee benefit provisions | 1,718 | 2,408 | 1,906 | 2,587 |
| Depreciation and valuation of non-financial assets | 295 | 472 | 1,364 | 1,040 |
| Dividends | 7 | 7 | 7 | 7 |
| Tax losses | 241,296 | 242,803 | 224,062 | 220,091 |
| Tax reliefs | - | 1,489 | 28 | 1,509 |
| Reduction of deferred tax assets | (281,023) | (298,340) | (289,675) | (294,044) |
| **Total deferred income tax assets** | **19,986** | **19,986** | **20,344** | **19,441** |
| **Deferred income tax liabilities** | | | | |
| Valuation of financial instruments | 13,003 | 6,336 | 13,500 | 6,890 |
| Depreciation and valuation of non-financial assets | 245 | 258 | 1,109 | 789 |
| Impairment provisions | - | - | 64 | 40 |
| Other | - | - | 39 | - |
| **Total deferred income tax liabilities** | **13,248** | **6,594** | **14,712** | **7,719** |
| **Net deferred income tax assets** | **6,738** | **13,392** | **5,947** | **12,092** |
| **Net deferred income tax liabilities** | **-** | **-** | **(315)** | **(370)** |
| **Included in the income statement for the current year** | **283** | **(72,037)** | **787** | **(69,582)** |
| - valuation of financial instruments and capital investments | (13,144) | 39,687 | (13,144) | 41,214 |
| - impairment provisions | (40) | (2,757) | 7,778 | 18,336 |
| - employee benefit provisions | (690) | 523 | (677) | 528 |
| - depreciation and valuation of non-financial assets | (164) | 704 | 10 | 475 |
| - tax losses | (1,507) | 187,343 | 3,971 | 163,086 |
| - tax credits | (1,489) | 803 | (1,481) | 823 |
| - adjustment of deferred tax assets | 17,317 | (298,340) | 4,369 | (294,044) |
| - other | - | - | (39) | - |
| **Included in other comprehensive income for the current year** | **(6,937)** | **(2,864)** | **(6,876)** | **(3,091)** |
| - valuation of available-for-sale financial assets | (7,048) | (2,678) | (6,987) | (2,905) |
| - cash flow hedges | 111 | (186) | 111 | (186) |

Slovenian law does not set limits or deadlines by which uncovered tax losses must be utilised.

If NLB d.d. were in accordance with IAS 12 to record deferred tax assets on all deductible temporary differeces, the amount of deferred tax assets would be EUR 301,009 thousand (31 December 2013: EUR 318,326 thousand). NLB d.d. reduced deferred taxes that it estimates will not be eliminated in the foreseeable future (i.e. within five years), given future profit projections. The reduction amounted to EUR 281,023 thousand (31 December 2013: EUR 298,340 thousand).

Financial Administration of the Republic of Slovenia in March 2015 issued a decision imposing a tax inspection of corporate income tax for the period from 1.1.2009 to 31.12.2014.

## b) Movements in deferred income taxes

## Deferred income tax assets

in EUR thousand

| | NLB d.d. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Employee benefit provisions | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Impairment provisions | Tax losses | Tax reliefs | Reduction of deferred tax assets | Dividends | Total |
| Balance at 1 January 2013 | 1,885 | 30,471 | 584 | 6,671 | 55,460 | 686 | - | 7 | 95,764 |
| (Charged)/credited to profit and loss | 523 | 39,312 | (112) | (2,757) | 187,343 | 803 | (298,340) | - | (73,228) |
| Charged to other comprehensive income | - | (2,550) | - | - | - | - | - | - | (2,550) |
| **Balance at 31 December 2013** | **2,408** | **67,233** | **472** | **3,914** | **242,803** | **1,489** | **(298,340)** | **7** | **19,986** |
| Credited/(charged) to profit and loss | (690) | (13,226) | (177) | (40) | (1,507) | (1,489) | 17,317 | - | 188 |
| Charged to other comprehensive income | - | (188) | - | - | - | - | - | - | (188) |
| **Balance at 31 December 2014** | **1,718** | **53,819** | **295** | **3,874** | **241,296** | **-** | **(281,023)** | **7** | **19,986** |

in EUR thousand

| | NLB Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Employee benefit provisions | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Impairment provisions | Tax losses | Tax reliefs | Reduction of deferred tax assets | Dividends | Total |
| Balance at 1 January 2013 | 2,059 | 30,403 | 1,045 | 20,979 | 57,000 | 686 | - | 7 | 112,179 |
| Effects of translation of foreign operations to presentation currency | - | (3) | (3) | 2 | 5 | - | - | - | 1 |
| (Charged)/credited to profit and loss | 528 | 39,446 | (2) | 5 | 163,086 | 823 | (294,044) | - | (90,158) |
| Charged to other comprehensive income | - | (2,581) | - | - | - | - | - | - | (2,581) |
| **Balance at 31 December 2013** | **2,587** | **67,265** | **1,040** | **20,986** | **220,091** | **1,509** | **(294,044)** | **7** | **19,441** |
| Effects of translation of foreign operations to presentation currency | (4) | 2 | (21) | (2) | - | - | - | - | (25) |
| Credited/(charged) to profit and loss | (677) | (13,226) | 345 | 7,803 | 3,971 | (1,481) | 4,369 | - | 1,104 |
| Charged to other comprehensive income | - | (176) | - | - | - | - | - | - | (176) |
| **Balance at 31 December 2014** | **1,906** | **53,865** | **1,364** | **28,787** | **224,062** | **28** | **(289,675)** | **7** | **20,344** |

## Deferred income tax liabilities

in EUR thousand

| | NLB d.d. | | |
|---|---|---|---|
| | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Total |
| Balance at 1 January 2013 | 6,397 | 1,074 | 7,471 |
| Credited to profit and loss | (375) | (816) | (1,191) |
| Charged to other comprehensive income | 314 | - | 314 |
| **Balance at 31 December 2013** | **6,336** | **258** | **6,594** |
| Credited to profit and loss | (82) | (13) | (95) |
| Charged to other comprehensive income | 6,749 | - | 6,749 |
| **Balance at 31 December 2014** | **13,003** | **245** | **13,248** |

in EUR thousand

| | NLB Group | | | | |
|---|---|---|---|---|---|
| | Impairment provisions | Valuation of financial instruments and capital investments | Depreciation and valuation of non-financial assets | Other | Total |
| Balance at 1 January 2013 | 18,383 | 8,150 | 1,270 | - | 27,803 |
| Effects of translation of foreign operations to presentation currency | (12) | (2) | (5) | - | (19) |
| Credited to profit and loss | (18,331) | (1,768) | (476) | - | (20,575) |
| Charged to other comprehensive income | - | 510 | - | - | 510 |
| **Balance at 31 December 2013** | **40** | **6,890** | **789** | **-** | **7,719** |
| Effects of translation of foreign operations to presentation currency | (1) | (8) | (15) | - | (24) |
| Charged/(credited) to profit and loss | 25 | (82) | 335 | 39 | 317 |
| Charged to other comprehensive income | - | 6,700 | - | - | 6,700 |
| **Balance at 31 December 2014** | **64** | **13,500** | **1,109** | **39** | **14,712** |

## 5.19. Income tax relating to components of other comprehensive income

in EUR thousand

| 2014 | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Before tax amount | Tax expense | Net of tax amount | Before tax amount | Tax expense | Net of tax amount |
| Actuarial gains and lossess | (3,946) | - | (3,946) | (3,656) | - | (3,656) |
| Available-for-sale financial assets | 41,461 | (7,048) | 34,413 | 40,970 | (6,987) | 33,983 |
| Cash flow hedge | (655) | 111 | (544) | (655) | 111 | (544) |
| Share of associates and joint ventures | - | - | - | 7,338 | (1,202) | 6,136 |
| **TOTAL** | **36,860** | **(6,937)** | **29,923** | **43,997** | **(8,078)** | **35,919** |

in EUR thousand

| 2013 | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Before tax amount | Tax expense | Net of tax amount | Before tax amount | Tax expense | Net of tax amount |
| Available-for-sale financial assets | 15,753 | (2,678) | 13,075 | 17,589 | (2,905) | 14,684 |
| Cash flow hedge | 1,095 | (186) | 909 | 1,095 | (186) | 909 |
| Share of associates and joint ventures | - | - | - | (996) | 200 | (796) |
| **TOTAL** | **16,848** | **(2,864)** | **13,984** | **17,688** | **(2,891)** | **14,797** |

## 5.20. Other liabilities

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Taxes payable | 3,397 | 5,132 | 4,300 | 7,517 |
| Deferred income | 832 | 766 | 3,772 | 4,473 |
| Payments received in advance | 34 | 106 | 3,994 | 2,907 |
| **TOTAL** | **4,263** | **6,004** | **12,066** | **14,897** |

## 5.21. Share capital

According to the decision of the Bank of Slovenia on extraordinary measures, all of NLB d.d.'s qualified liabilities were terminated on 18 December 2013. As a result, all of NLB d.d.'s shares were rescinded and deleted from the central register of book-entry securities at the Central Securities Clearing Corporation (KDD). After the write-down of NLB d.d.'s share capital to zero, the share capital was increased by EUR 200,000 thousand through the issue of 20,000,000 new no-par-value ordinary registered shares. The corresponding value of one new share is EUR 10.0. The issue value of one new share is EUR 77.6, while the total value of all new shares is EUR 1,551,000 thousand. New shares were paid up in cash in the amount of EUR 1,141,001 thousand and through contributions in kind with a total market value at the time of the capital increase of EUR 409,999 thousand. Contributions in kind are accounted for by Slovenian government bonds, which NLB d.d. classified as available-for-sale financial assets (note 5.4.b).

There were no changes in share capital in 2014.

Distributable profit as at 31 December 2014 amounts to EUR 81,529 thousand (31 December 2013: zero) and its allocation will be subject to a decision by the Bank's Annual General Meeting. According to the commitments to the European Commission, given by Republic of Slovenia in the process of approving state aid for NLB d.d. in year 2013, profit for year 2014 cannot be distributed.

### Movements in the number of shares

| NLB d.d. and NLB Group | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | 20,000,000 | 12,548,930 |
| Subscription of new shares | - | 222,647 |
| Conversion of capital instrument | - | 9,284,801 |
| Dilution of shares | - | (22,056,378) |
| Subscription of new shares after the dilution | - | 20,000,000 |
| **Balance at 31 December** | **20,000,000** | **20,000,000** |

As at 31 December 2014 and 31 December 2013 the Republic of Slovenia is the only shareholder of NLB d.d. The NLB Group does not own treasury shares.

The book value of NLB d.d. share as at 31 December 2014 was EUR 60.2 (31 December 2013: EUR 54.7) and on a consolidated level it was EUR 67.2 (31 December 2013: EUR 62.4). It is calculated as the ratio of net assets book value without other equity instruments issued and the number of shares.

In 2014 and 2013, NLB d.d. did not pay a dividend for previous years.

## 5.22. Reserves

The share premium account comprises paid-up premiums in the amount of EUR 822,173 thousand (31 December 2013: EUR 822,173 thousand) and the revaluation of share capital from previous years in the amount of EUR 49,205 thousand (31 December 2013: EUR 49,205 thousand). According to a decision issued by the Bank of Slovenia in December 2013, NLB d.d. deleted share capital in the amount of EUR 184,079 thousand and increased the share premium account accordingly. At the end of the year, the share premium account, together with profit reserves, was used to cover losses. The share premium account is not distributable.

As at 31 December 2014 and 31 December 2013 profit reserves in the amount of EUR 13,522 thousand relate entirely to legal reserves in accordance with the Companies Act.

In 2014, NLB d.d. recorded a net profit in the amount of EUR 81,529 thousand which represents the retained earnings as at 31 December 2014.

In 2013 NLB d.d. recorded a net loss in the amount of EUR 1,540,278 thousand. It also had uncovered losses from previous years in the amount of EUR 304,874 thousand. The entire amount of retained earnings was used to cover the loss for 2013 and losses brought forward, while the difference was covered by the share premium account.

## 5.23. Capital adequacy ratios

in EUR thousand

| | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | 31.12.2014 | 1.1.2014 | 31.12.2013* | 31.12.2014 | 1.1.2014 | 31.12.2013* |
| | | Estimation | | | Estimation | |
| Paid up capital instruments | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Share premium | 871,378 | 871,378 | 871,378 | 871,378 | 871,378 | 871,378 |
| Retained earnings - from previous years | - | - | - | 148,234 | 148,262 | - |
| Profit or loss eligible - from current year | 81,529 | - | - | 58,111 | - | - |
| Accumulated other comprehensive income | (1,519) | (2,589) | (233) | (4,663) | (2,676) | (672) |
| Other reserves | 13,522 | 13,522 | 12,892 | 13,522 | 13,522 | 159,515 |
| Minority interest | - | - | - | - | - | 24,048 |
| Prudential filters: Cash flow hedge reserve | 533 | 424 | - | 533 | 424 | - |
| Prudential filters: Value adjustments due to the requirements for prudent valuation | (3,049) | (3,204) | - | (3,535) | (3,723) | - |
| (-) Goodwill | - | - | - | (3,529) | (3,713) | (3,713) |
| (-) Other intangible assets | (33,743) | (44,976) | (44,976) | (39,171) | (50,960) | (50,960) |
| (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | (1,094) | (2,079) | - | (802) | (1,789) | - |
| (-) Investments in CET1 instruments of financial sector - significant share | - | - | (9,129) | - | - | (3,960) |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | **1,127,557** | **1,032,476** | **1,029,932** | **1,240,078** | **1,170,725** | **1,195,636** |
| Additional Tier 1 capital | - | - | - | - | - | - |
| **TIER 1 CAPITAL** | **1,127,557** | **1,032,476** | **1,029,932** | **1,240,078** | **1,170,725** | **1,195,636** |
| Tier 2 capital | - | - | 799 | - | - | 22,930 |
| **TOTAL CAPITAL (OWN FUNDS)** | **1,127,557** | **1,032,476** | **1,030,731** | **1,240,078** | **1,170,725** | **1,218,566** |
| RWA for credit risk | 4,292,627 | 4,615,875 | 5,436,475 | 5,875,105 | 5,941,005 | 6,593,705 |
| RWA for market risks | 26,963 | 57,785 | 57,785 | 141,001 | 176,430 | 249,107 |
| RWA for credit valuation adjustment risk | 8,338 | 3,311 | - | 8,338 | 3,311 | - |
| RWA for operational risk | 634,290 | 722,265 | 722,265 | 1,013,538 | 1,162,568 | 1,162,568 |
| **TOTAL RISK EXPOSURE AMOUNT (RWA)** | **4,962,218** | **5,399,236** | **6,216,525** | **7,037,982** | **7,283,314** | **8,005,380** |
| Common Equity Tier 1 Ratio | 22.7% | 19.1% | 16,6%** | 17.6% | 16.1% | 14,9%** |
| Tier 1 Ratio | 22.7% | 19.1% | 16.6% | 17.6% | 16.1% | 14.9% |
| Total Capital Ratio | 22.7% | 19.1% | 16.6% | 17.6% | 16.1% | 15.2% |

* Calculation in line with old legislation (CRD II), shown in categories from new (CRD IV) legislation.
** For 2013, the Core Tier 1 ratio is shown instead of the CET1 ratio.

At the beginning of 2014, new European legislation CRD IV came into force, which is based on the principles of the Basel III guidelines. Instead of one capital ratio, the new legislation defines three capital ratios reflecting different qualities of capital:

- Common Equity Tier 1 ratio (ratio between common or CET1 capital and weighted risk exposure amount or RWA), which must exceed 4.5%;
- Tier 1 capital ratio (Tier 1 capital to RWA), which must exceed 6%;
- Total capital ratio (total capital to RWA), which must exceed 8%.

NLB d.d. and the NLB Group fulfil all regulatory requirements for capital adequacy ratios and prescribed requirement for CET1 for the NLB Group from supervisory authorities.

The capital of NLB d.d. and the NLB Group in 2014 consists only of the highest quality CET1 capital (no subordinated instruments that could be classified as capital of a lower category). Therefore, all three achieved ratios are equal.

In the third column, the capital adequacy calculation per 31 December 2013 is shown as reported to supervisory institutions, i.e. according to the old legislation. In the second column, for comparison, a calculation for the same period is shown according to the new legislation.

## 5.24. Foreign branches

NLB d.d. has a branch in Trieste, whose key figures are as follows:

in EUR thousand

| | 2014 | 2013 |
|---|---|---|
| Interest and fee income | 478 | 1,909 |
| Net loss for the year | (1,750) | (18,450) |

| | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Total assets (in EUR thousand) | 21,818 | 35,746 |
| Number of employees | 18 | 19 |

## 5.25. Off-balance sheet liabilities

## a) Contractual amounts of off-balance sheet financial instruments

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Short-term guarantees | 112,844 | 144,891 | 209,806 | 250,839 |
| *- financial* | *44,871* | *63,589* | *120,868* | *145,665* |
| *- non-financial* | *67,973* | *81,302* | *88,938* | *105,174* |
| Long-term guarantees | 580,742 | 582,925 | 689,997 | 697,508 |
| *- financial* | *201,593* | *174,810* | *274,826* | *253,738* |
| *- non-financial* | *379,149* | *408,115* | *415,171* | *443,770* |
| Commitments to extend credit | 1,012,334 | 836,999 | 1,101,684 | 952,473 |
| Letters of credit | 1,411 | 1,423 | 12,604 | 17,699 |
| Other | 832 | 5,382 | 6,040 | 15,692 |
| | 1,708,163 | 1,571,620 | 2,020,131 | 1,934,211 |
| Provisions (note 5.17.b) | (88,803) | (54,525) | (92,799) | (67,611) |
| **TOTAL** | **1,619,360** | **1,517,095** | **1,927,332** | **1,866,600** |

## b) Analysis of derivative financial instruments by notional amounts

in EUR thousand

| | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | 31.12.2013 | | 31.12.2014 | | 31.12.2013 | |
| | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term |
| Swaps | 170,418 | 1,418,074 | 185,797 | 1,775,299 | 170,058 | 1,414,521 | 182,111 | 1,771,412 |
| *- currency swaps* | *120,418* | *6,640* | *180,797* | *39* | *120,058* | *6,640* | *177,111* | *39* |
| *- interest rate swaps* | *50,000* | *1,289,636* | *5,000* | *1,713,588* | *50,000* | *1,286,083* | *5,000* | *1,709,701* |
| *- currency interest rate swaps* | - | *121,798* | - | *61,672* | - | *121,798* | - | *61,672* |
| Options | 8,719 | 8,309 | 8,942 | 12,966 | 8,719 | 8,309 | 8,942 | 12,966 |
| *- interest rate options* | - | *8,309* | - | *12,966* | - | *8,309* | - | *12,966* |
| *- securities options* | *8,719* | - | *8,942* | - | *8,719* | - | *8,942* | - |
| Forward contracts | 272,104 | 18,511 | 143,769 | 28,723 | 271,704 | 18,511 | 144,217 | 28,723 |
| *- currency forward* | *272,104* | *18,511* | *143,769* | *28,723* | *271,704* | *18,511* | *144,217* | *28,723* |
| Futures | 2,900 | - | 41,274 | - | 2,900 | - | 41,274 | - |
| *- currency futures* | *2,900* | - | *6,342* | - | *2,900* | - | *6,342* | - |
| *- interest rate futures* | - | - | *34,932* | - | - | - | *34,932* | - |
| **TOTAL** | **454,141** | **1,444,894** | **379,782** | **1,816,988** | **453,381** | **1,441,341** | **376,544** | **1,813,101** |
| | **1,899,035** | | **2,196,770** | | **1,894,722** | | **2,189,645** | |

The notional amounts of derivative financial instruments that qualify for hedge accounting at NLB d.d. and the NLB Group amount to EUR 224,349 thousand (31 December 2013: EUR 294,491 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

The fair values of derivative financial instruments are disclosed in notes 5.2., 5.5. and 5.15.

## c) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Not later than one year | 1,663 | 2,098 | 1,871 | 2,970 |
| Later than one year and not later than five years | 5,806 | 6,193 | 5,981 | 7,969 |
| Later than five years | 2,536 | 2,730 | 1,994 | 1,869 |
| **TOTAL** | **10,005** | **11,021** | **9,846** | **12,808** |

## d) Operating lease income

Future minimum operating lease income:

in EUR thousand

| NLB Group | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Not later than one year | 3,964 | 6,821 |
| Later than one year and not later than five years | 10,361 | 18,714 |
| Later than five years | 38,182 | 45,051 |
| **TOTAL** | **52,507** | **70,586** |

## e) Capital commitments

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Capital commitments for purchase of: | | | | |
| - property and equipment | 97 | 3 | 227 | 3 |
| - intangible assets | 165 | 521 | 304 | 555 |
| | **262** | **524** | **531** | **558** |

## 5.26. Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from the NLB Group's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on the NLB Group in connection with these transactions. The NLB Group charges fees for its services.

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **ASSETS** | | | | |
| **Clearing or transaction account claims for client assets** | **10,106,792** | **8,687,093** | **10,834,744** | **9,021,366** |
| - from financial instruments | 10,087,226 | 8,687,023 | 10,814,913 | 9,021,296 |
| - receipt, processing and execution of orders | 1,062,190 | 1,205,556 | 1,444,719 | 1,514,120 |
| - management of financial instruments portfolio | - | 241,779 | 304,341 | 241,779 |
| - custody services | 9,025,036 | 7,239,688 | 9,065,853 | 7,265,397 |
| - to Central Securities Clearing Corporation or bank settlement account for sold financial instrument | 1,158 | 70 | 1,423 | 70 |
| - to other settlement systems and institutions for bought financial instrument (debtors) | 18,408 | - | 18,408 | - |
| **Clients' money** | **22,515** | **18,368** | **29,175** | **18,368** |
| - at settlement account for client assets | 7,667 | 5,860 | 14,327 | 5,860 |
| - at bank transaction accounts | 14,848 | 12,508 | 14,848 | 12,508 |
| **LIABILITIES** | | | | |
| **Clearing or transaction liabilities for client assets** | **10,129,307** | **8,705,461** | **10,863,919** | **9,039,734** |
| - to client from cash and financial instruments | 10,121,117 | 8,704,903 | 10,855,043 | 9,039,176 |
| - receipt, processing and execution of orders | 1,063,051 | 1,205,594 | 1,445,580 | 1,514,158 |
| - management of financial instruments portfolio | - | 248,646 | 310,580 | 248,646 |
| - custody services | 9,058,066 | 7,250,663 | 9,098,883 | 7,276,372 |
| - to Central Securities Clearing Corporation or bank settlement account for bought financial instrument | 45 | 44 | 45 | 44 |
| - to other settlement systems and institutions for bought financial instrument (creditors) | 7,768 | - | 8,454 | - |
| - to bank or settlement bank account for fees and costs etc. | 377 | 514 | 377 | 514 |

## Funds managed on behalf of third parties

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Fiduciary activities | 10,129,307 | 8,705,461 | 10,863,919 | 9,039,734 |
| Settlement and other services | 2,903,176 | 3,115,943 | 2,941,190 | 3,154,621 |
| **TOTAL** | **13,032,483** | **11,821,404** | **13,805,109** | **12,194,355** |

## Fee income for funds managed on behalf of third parties

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Fiduciary activities (note 4.3.b) | 6,190 | 6,226 | 7,251 | 6,288 |
| Settlement and other services | 399 | 555 | 602 | 635 |
| **TOTAL** | **6,589** | **6,781** | **7,853** | **6,923** |

# 6. Events after the reporting date

There were no events after 31 December 2014 that could materially significant influence the presented financial statements.

# 7. Risk management

## a) Risk management strategies and processes

In the realisation of the planned business results and strategic goals of the NLB Group, the emphasis, in the framework of risk management, is placed on proactive monitoring and comprehensive risk management which also results in the tendency towards more economic use of capital. The NLB Group has defined its risk appetite as well as detailed guidelines within the risk strategy. Risk management is implemented in accordance with the established internal policies and procedures which take into account the regulations adopted by the Bank of Slovenia and other legislation, relevant EBA guidelines and good banking practices. The Strategy of the NLB Group, the risk strategy guidelines and the key internal policies of the NLB Group, which are approved by the Management Board and also discussed by the Supervisory Board, specify the strategic goals, risk appetite guidelines, approaches and methodologies for monitoring, measuring and managing all types of risk.

Management of credit risk, which is the most important risk in the NLB Group, focuses on the taking of moderate risks and also ensuring an optimal return given the risks assumed. As regards liquidity risk, the activities are geared towards constant ensuring of an appropriate level of liquidity for the purpose of fulfilling all short-term liabilities. It thus follows that risk assumption is relatively low. When assuming market and operational risks, the NLB Group follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low with a focus on minimising their possible impacts on the NLB Group's entire operations.

Monitoring of any deviations from the set strategic goals and guidelines in risk management is regularly implemented within the framework of the defined target Risk Profile of NLB d.d. and the NLB Group. We established regular monthly reporting on achievements and/or any deviations from the guidelines, which were defined on the basis of target risk indicators, either as limits or as target values. The target risk profile, where the emphasis is mainly on the monitoring of key risks and their trends, to which the NLB Group is exposed in its operations, is monitored monthly by the Management Board of NLB d.d. and/or relevant committees of the Bank (also authorised for decision-making) which adopt corrective measures if necessary. Moreover, the risk profile is regularly discussed by the Risk Committee of the Supervisory Board of NLB d.d. Such an approach to monitoring the target risk profile has also been established in individual members of the NLB Group.

The internal risk management policies of the NLB Group members include aligned key risk management guidelines at the level of the Group, along with the requirements arising from the local regulations. The policies are approved by the members' managements and also discussed by their supervisory boards. They define in detail the approaches and methodologies for monitoring, measuring and managing of all types of risks, with an emphasis on:
- monitoring the credit portfolio and minimising losses arising from credit risk, which considering its business model is the principal risk of the NLB Group;
- ensuring a sufficient level of liquidity;
- minimising negative income effects arising from market risks;
- preventing potential loss events arising from operational risks.

The following documents are crucial for the purpose of managing risks at the NLB Group level:
- Risk Appetite Statement,
- Risk Strategy of the NLB Group,
- Risk Management Standards of the NLB Group,
- Criteria and Procedures for Granting Loans in NLB Group Members,
- Loan Collateral Manual in the NLB Group,
- Methodology of receivable impairment and provisioning for credit risks according to the International Financial Reporting Standards and the regulations of the Bank of Slovenia applying to NLB d.d. and the NLB Group,
- Policy on Lending to Non-financial Companies of NLB d.d., and
- Minimum Standards for Financial Markets.

### b) Risk management structure and organisation

Risk monitoring in the NLB Group is centralised within the specialised Business line Risk, encompassing several organisational units of NLB d.d. This business line is in charge of formulating and controlling the risk management policies, coordinating activities related to the harmonisation of risk management in the NLB Group, monitoring the NLB Group's exposure to all types of business risk, and preparation of external and internal reports. Moreover, the business line is also responsible for setting up on the NLB Group level the methodology of credit rating classification and setting debt ceilings and the methodology for appraising movable and immovable property. Credit ratings of materially important clients and the issuing of credit risk opinions (the credit advice as part of the co-decision principle) are centralised via the Credit Committee of NLB d.d. All members of the NLB Group, which are included in the consolidated financial statements of the NLB Group, report their exposure to risks to the competent organisational units in NLB d.d. These report all the relevant information to the Assets and Liabilities Committee (ALCO) of the NLB Group, the Management Board and the Risk Committee of the Supervisory Board, which adopt the required measures or decisions.

The primary responsibility for the management of the risks assumed by NLB Group members within the framework of their business strategy lies with their managements which are obliged to pursue the strategic goals and implement the planned business results as well as monitor and manage risks in accordance with the guidelines at the NLB Group level. For this purpose, the members must adopt appropriate risk management policies. The supervisory board of the member gives approval to objectives and policies and within its competence monitors their implementation as well as assesses their effectiveness. The member's management or the management board and its committees may in accordance with their authorisations delegate certain tasks, particularly operating responsibilities in risk management, to lower management levels.

Risk monitoring in the NLB Group members is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks ensures the establishment of standardised and systemic approaches to risk management, and thus a comprehensive overview of events in the Group's and each member's statement of financial position. In compliance with the Risk Management Standards of the NLB Group, this is organised in all members in such a manner that risk measurement and monitoring is separated from its management and/or business function, which is important due to the objectivity required when assessing business decisions. The organisational unit for managing risks is directly responsible to the Management Board or 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).

The organisation and delimitation of competencies in the risk management area are 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.

### c) Risk measurement and reporting systems

The 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. As regards capital adequacy, the NLB Group applies the standardised approach to credit and market risk and the basic approach to operational risks, with the exception of NLB d.d. which applies the standardised approach.

For the internal needs of measuring of exposure to credit, market, interest, operational and non-financial risks in the NLB Group, besides the prescribed regulations internal methodologies and approaches are used, enabling the more detailed monitoring and management of risks. These are aligned with the Basel and EBA guidelines as well as the best methodological approaches in banking practice. A more detailed description of the methodologies for monitoring individual types of risks is provided in the following sections related to each individual risk separately.

In the NLB Group, reporting complies with the internal guidelines which, in terms of the substance and frequency of reporting and, besides internal requirements take into account the requirements of the Bank of Slovenia and the European Central Bank. At the individual level, members of the NLB Group also comply with the requirements of the local regulations. Reporting is carried out in the form of standardised reports. This is enabled by risk management policies reasonably aligned with the methodologies for measuring and harmonising exposure to risks, appropriately established databases and the automation of report preparation at the Group level, which also ensures their quality and reduces the possibility of errors.

### d) Main emphasis of Risk management in 2014

In 2014 the Slovenian economy was positively affected by stronger economic growth based mainly on foreign demand and a slightly better situation in the labour market. At the same time, this positive trend was still marked by some structural imbalances, largely the high indebtedness of the Slovenian economy and relatively low household consumption, the elimination of which is important in the long term from the perspective of ensuring further credit growth and thus a gradual improvement in the quality of the Bank's investment portfolio. The macroeconomic conditions in most countries where NLB Group members operate were still relatively harsh, which importantly influenced their operations.

The most important risk in the NLB Group remains credit risk. The NLB Group is strongly focused on a continued reduction of the share of NPLs, either through intensive treatment of clients facing problems in operations, particularly in terms of restructuring and a partial write-off of their liabilities, either through proactive approaches to debt collection, sales of receivables, the assumption of received collaterals and the write-off of irrecoverable receivables. The Bank has set up a system for the early detection of a deterioration in a client's performance that covers clients on the watch list or in intensive care. The clients' financial position and execution of activities under the action plan are regularly monitored by a special committee. In the area of granting new investments, the process of introducing improvements in the credit process and risk culture continues. In addition to the new, stricter credit rating criteria, emphasis has been placed on the development of internal scoring models for particular client segments with the aim to detect all relevant risks early and systematically.

The liquidity position of NLB d.d. and, consequently, the NLB Group has improved substantially and remains stable, which is also reflected in the relatively high achievement of the limit values of regulatory indicators. The NLB Group maintains a conservative policy for market risks. Great emphasis is also put on the management of operational risks which is constantly upgraded in terms of monitoring quality. Moreover, the NLB Group attributes particular importance to the permanent monitoring of novelties in the regulations and good approaches in banking practice and their implementation so as to further improve supervision over the assuming of risks and their management in practice.

## 7.1. Credit risk management

### a) Introduction

In its operations, the NLB Group is especially exposed to credit risk or the risk of losses due to the failure of a debtor to settle its liabilities to NLB d.d. For that reason, it intensively monitors and assesses the aforementioned risk. In that process, the 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 d.d. ensures that the credit risk management of those entities functions in accordance with the NLB Group's risk management standards in order to ensure meaningfully uniform procedures at the consolidated level.

The 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 the conclusion of an agreement, a customer's performance, financial position and past cooperation with NLB d.d. are assessed. It is also important to secure high-quality collateral that 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 the abovementioned detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client' operation comprehensively, internal scoring models for particular client segments have been developed.
- At the level of the overall portfolio of NLB d.d. and/or the NLB Group, which is regularly analysed and monitored in terms of client segmentation (depending on the client type and size), credit rating structure, arrears and/or volume of non-performing/past due and restructured receivables, coverage with impairments and provisions, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure and other indicators of risks in the investment portfolio.

Regular monitoring comprises an analysis of changes and the identification of trends in movements, risks and concentration of the credit portfolio on the basis of time factors. The 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 movements in the portfolio on the level of impairments and provisions, and on capital adequacy within the second pillar. Capital requirements for credit risk at the NLB Group level within the first pillar are calculated according to the standardised approach.

NLB d.d. and other NLB Group entities assess the level of credit risk losses on an individual basis for material claims, which are reviewed individually, and at the group level for the rest of the portfolio.

The primary aim of an individual review is to determine whether objective evidence of impairment exists. Such evidence includes 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 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. If objective evidence of impairment does not exist, losses are assessed at the group level.

Collective impairments are made for the remainder of the portfolio, which is not assessed on an individual basis. To that end, the portfolio is broken down into groups of similar claims, and then further into sub-groups with respect to their credit rating. Here, impairments are created with respect to the probability of default (PD) and with respect to the average rate of default or loss given default (LGD) associated with non-performing claims. The probability of default is determined by transition matrices which illustrate the migration of customers between rating categories using an unweighted moving average of a transition matrix for the last 5 years. The average rate of default or loss given default, which indicates how much we will lose on average when a claim becomes non-performing, is determined based on the amount of impairments created for non-performing loans as the non-weighted average of loss given default in the last two years. When creating collective provisions for commitments, on the basis of empirical data regarding the redemption of guarantees in the past, the probability of the redemption of guarantees is taken into account when creating collective provisions.

### b) Main emphasis in 2014

The NLB Group's efforts in credit risk management are still aimed at a substantive upgrading of the existing credit process and a better risk management culture. It must be emphasised that additional systems and activities have been introduced in the credit policy, with an emphasis on more prudent risk assumption. Greater emphasis was allocated to the monitoring, management and reporting of non-performing exposures, whereby D- and E-rated clients are classified in accordance with the internal methodology. Moreover, in compliance with the EBA requirements, more detailed monitoring of forborne exposures was introduced, along with the monitoring of cured exposures.

The stricter credit rating methodology, the Early Warning System in relation to the Watch List Committee as well as the introduction of a scoring model for clients with exposure of up to EUR 100,000 had an important influence on the improvement in the assessment of credit risks and early identification of client difficulties. Consequently, this is leading to an improvement in the quality of the credit portfolio and the greater stability of the transitions to lower credit grades.

Moreover, the methodology for assessing losses from credit risk was redesigned, with particular emphasis placed on the procedure for assessing the appropriateness of individual impairments and provisions in order to respond to changes in the financial position of customers and other factors that could impact the level of required impairments in a cost-efficient and timely manner.

The upgrading of the credit process continues with the development of internal scoring models for the individual client segment, establishment of the recoverability database and introduction of additional control activities in the framework of the specialised unit, which will improve control activities in the credit function.

***Investment portfolio***

Despite the gradual revival of economic activity, particularly in the Slovenian economy, the process of the shrinking of loans to non-financial companies continues, as reflected in the reduced investment portfolio at the level of NLB d.d. and the NLB Group. The latter arises from the relatively high indebtedness of companies and relatively low investment demand, whereby a slight improvement was noticed in export-oriented companies. Consumption is also relatively low in the retail segment.

At the end of 2013, NLB d.d. transferred a large portion of non-performing loans from Slovenian clients to the Bank Assets Management Company (BAMC), which improved the quality of its credit portfolio. In 2014 the NLB Group performed activities aimed at further reducing NPLs either through intensive care of clients facing financial difficulties, notably by restructuring and partially writing off obligations, or through debt collection, the seizure of collateral, sale of claims, active marketing of pledged assets and writing off of unrecoverable debt. Strong emphasis was placed on completing the financial and business restructuring process where the positive effects, in accordance with the EBA guidelines, will only be recorded in the next period (a small proportion already in 2015 and the majority in 2016).

The balance of loans which include D- and E-grade loans decreased at the end of 2014 compared to the previous year, namely at the level of NLB d.d by EUR 78.4 million and at the level of the NLB Group by EUR 171.2 million. Because of the concurrent decrease in the investment portfolio, which exceeded the downward trend in D- and E- grade loans, the latter is reflected in the presentation of their share. Their share at the level of NLB d.d. is 21.2% (an increase of 0.4 pp over the year before), whereas the share at the NLB Group level is 26.2% (down by 0.7 pp over the end of 2013). In comparative terms and considering the net loan criterion, their share is lower, namely 11.3% at the level of NLB d.d. and 12.7% at the level of the NLB Group. At the end of 2014, the bulk of D- and E- grade loans were recorded in trade, manufacturing, construction and real estate trading, while retail clients still represent a low-risk client segment. The coverage of non-performing loans by impairments for D- and E- grade loans at the end of 2014 stood at 54.6% at the level of NLB d.d. and 60.3% at the level of the NLB Group.

## c) Internal rating system and authorisations

| | NLB d.d. | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | | | 31.12.2013 | | | |
| | Gross loans and advances (in EUR thousand) | Loans and advances (%) | Impairment provision (in EUR thousand) | Impairment provision (%) | Gross loans and advances (in EUR thousand) | Loans and advances (%) | Impairment provision (in EUR thousand) | Impairment provision (%) |
| A | 3,633,387 | 53.0 | 10,832 | 0.3 | 3,188,768 | 43.2 | 11,460 | 0.4 |
| B | 703,010 | 10.2 | 16,889 | 2.4 | 1,684,046 | 22.8 | 28,992 | 1.7 |
| C | 1,068,504 | 15.6 | 177,743 | 16.6 | 973,606 | 13.2 | 197,516 | 20.3 |
| D and E | 1,453,288 | 21.2 | 793,600 | 54.6 | 1,531,670 | 20.8 | 850,633 | 55.5 |
| **TOTAL** | **6,858,189** | **100.0** | **999,064** | **14.6** | **7,378,090** | **100.0** | **1,088,601** | **14.7** |

*Other financial assets are not included.

| | NLB Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | | | 31.12.2013 | | | |
| | Gross loans and advances (in EUR thousand) | Loans and advances (%) | Impairment provision (in EUR thousand) | Impairment provision (%) | Gross loans and advances (in EUR thousand) | Loans and advances (%) | Impairment provision (in EUR thousand) | Impairment provision (%) |
| A | 4,951,243 | 53.0 | 22,204 | 0.5 | 4,473,990 | 45.8 | 20,791 | 0.4 |
| B | 1,173,722 | 12.6 | 51,468 | 4.4 | 1,807,758 | 18.5 | 51,521 | 2.8 |
| C | 771,214 | 8.2 | 110,452 | 14.3 | 859,165 | 8.8 | 119,210 | 13.8 |
| D and E | 2,453,304 | 26.2 | 1,478,902 | 60.3 | 2,624,533 | 26.9 | 1,605,113 | 61.2 |
| **TOTAL** | **9,349,483** | **100.0** | **1,663,026** | **17.8** | **9,765,446** | **100.0** | **1,796,635** | **18.4** |

*Other financial assets are not included.

The basis for client credit rating classification in the NLB Group is the internally developed methodology. It is based on internal statistical analyses, good banking practices as well as regulations of the Bank of Slovenia (Decision of the Bank of Slovenia on the Assessment of Credit Risk Losses of Banks and Savings Banks) and requirement of the European Banking Authority (EBA). The key amendment to the methodology was made at the end of 2013, and in 2014 the methodology was supplemented with the regulatory requirements. The supplements did not materially affect the credit rating classification.

The rating methodology is used in the entire NLB Group, whereby NLB d.d. has already introduced a broader range of rating classes, while other NLB Group members use narrowed scale (same groups, but fewer classes).  Unification of rating scales will be introduced in other NLB Group members in the first half of 2015, of 12 credit rating classes, 9 represent a going concern i.e. performing clients, and 3 non-performing clients i.e. 'defaulters'.

Grade A includes the best clients with a low degree of default probability which is characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Grade B includes clients with a low credit risk, one class lower than A-grade clients. The clients operate successfully, have a sufficient cash flow to settle their obligations, but some are more sensitive to changes in the industry or the economy. C-grade clients are exposed to a higher and above-average level of credit risk. The Bank reasonably restricts cooperation with such clients and decreases their exposure. For some of these clients the specialised restructuring unit must participate in the process.

The D- and E-grades represent defaulters or clients with a high probability of default. Besides clients in insolvency proceedings and with arrears of over 90 days, this category includes clients where the Bank, based on past operations and future projections, assesses a high probability of default ("unlikely to pay"). D- and E-grade clients are ordinarily handled by the specialised units for restructuring or workout and legal support or by the specialised working groups.

Authorisations, procedures and the detailed rating methodology, as well as the setting of a maximum borrowing limit and the impairment of claims, are formalised in the NLB Group's internal acts. A standard customer rating methodology, with the prescribed set and quality of input data and elements of a rating analysis, applies to all NLB Group entities. Here it should be noted that decisions regarding limits and internal rating of materially significant customers of the NLB Group are the responsibility of the NLB d.d. Credit Committee.

NLB d.d. regularly reviews the business practices and credit portfolios of NLB Group entities to ensure that they are operating in accordance with the minimum risk management standards of the NLB Group. This ensures appropriate standard processes for managing and reporting credit risks at the consolidated level.

## d) Maximum exposure to credit risk

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Cash, cash balances at central banks and other demand deposits at banks | 434,438 | 590,645 | 1,127,527 | 1,250,600 |
| Debt securities classified as loans and receivables | 706,785 | 702,791 | 706,785 | 702,791 |
| Loans to government | 387,378 | 353,339 | 515,315 | 479,420 |
| Loans to banks | 159,300 | 160,569 | 271,340 | 224,590 |
| Loans to financial organizations | 548,731 | 655,236 | 154,132 | 169,421 |
| Loans to individuals | 1,884,000 | 1,858,175 | 2,803,302 | 2,716,082 |
| *Granted overdrafts* | *159,967* | *167,533* | *192,738* | *199,647* |
| *Loans for houses and flats* | *1,143,952* | *1,129,302* | *1,442,022* | *1,414,648* |
| *Consumer loans* | *472,792* | *503,147* | *910,752* | *892,455* |
| *Other loans* | *107,289* | *58,193* | *257,790* | *209,332* |
| Loans to other customers | 2,172,931 | 2,559,379 | 3,235,583 | 3,676,507 |
| *Loans to large corporate customers* | 1,418,494 | 1,617,635 | 1,819,363 | 2,003,783 |
| *Loans to small and medium size enterprises* | 754,437 | 941,744 | 1,416,220 | 1,672,724 |
| Other financial assets | 47,836 | 41,337 | 71,769 | 63,919 |
| Trading assets | 138,786 | 87,794 | 138,196 | 87,350 |
| Financial assets designated at fair value through profit or loss | - | - | 885 | 895 |
| Available-for-sale financial assets | 1,152,933 | 1,080,090 | 1,640,091 | 1,597,348 |
| Held-to-maturity financial assets | 711,648 | 864,259 | 711,648 | 864,259 |
| Derivatives - hedge accounting | 2,966 | 5,426 | 2,966 | 5,426 |
| **TOTAL FINANCIAL ASSETS** | **8,347,732** | **8,959,040** | **11,378,654** | **11,838,608** |
| Guarantees | 693,586 | 727,816 | 899,803 | 948,347 |
| *Financial guarantees* | *246,464* | *238,399* | *395,694* | *399,403* |
| *Non-financial guarantees* | *447,122* | *489,417* | *504,109* | *548,944* |
| Loan commitments | 1,012,334 | 836,999 | 1,101,684 | 952,473 |
| Other potential liabilities | 2,243 | 6,805 | 18,644 | 33,391 |
| **TOTAL CONTINGENT LIABILITIES** | **1,708,163** | **1,571,620** | **2,020,131** | **1,934,211** |
| **TOTAL MAXIMUM EXPOSURE TO CREDIT RISK** | **10,055,895** | **10,530,660** | **13,398,785** | **13,772,819** |

Maximum exposure to credit risk is a presentation of the 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.

NLB d.d. has 80.1% (31 December 2013: 84.7%) of loans and advances that are neither past due nor impaired, 0.9% (31 December 2013: 0.4%) of loans and advances past due but not impaired, 18.4% (31 December 2013: 14.2%) of individually impaired loans and 0.7% (31 December 2013: 0.6%) of collectively impaired loans. The NLB Group has 81.4% (31 December 2013: 82.2%) of loans and advances that are neither past due nor impaired, 5.2% (31 December 2013: 3.1%) of loans and advances past due but not impaired, 12.7% (31 December 2013: 13.7%) of individually impaired loans and 0.7% (31 December 2013: 1.0%) of collectively impaired loans.

The coverage of the credit portfolio by allowances for impairment in NLB d.d. in 2014 decreased (compared to 31 December 2013) to stand at 14.6% at the end of the year (31 December 2013: 14.8%). Moreover, 63.2% (31 December 2013: 66.0%) of the portfolio is considered to be a quality portfolio. The coverage of the portfolio by allowances for impairment at the NLB Group level has also decreased and stood at 17.8% (31 December 2013: 18.4%) at the end of 2014. Further, 65.5% (31 December 2013: 64.3%) of the portfolio is considered as quality and includes A and B ratings.

NLB d.d. transferred its mainly bad loans to BAMC in December 2013, which improved some indicators. But in 2013 the quality of the remaining credit portfolio deteriorated, also due to the harsher macroeconomic conditions. This resulted in an increase in impairment and provisions for credit losses, mainly for clients who were individually assessed.

## e) Collateral from loans and advances

in EUR thousand

| 31.12.2014 | NLB d.d. | | | |
|---|---|---|---|---|
| | Fully/over collateralised loans and advances | | Non-collateralised and under-collateralised loans and advances | |
| | Carrying value of loans and advances | Fair value of collateral | Carrying value of loans and advances | Fair value of collateral |
| Debt securities | 706,785 | 706,785 | - | - |
| Loans to government | 70,010 | 78,509 | 317,368 | 40 |
| Loans to banks | - | - | 159,300 | 546 |
| Loans to financial organizations | 18,121 | 48,619 | 530,610 | 151 |
| Loans to individuals | 1,454,823 | 2,682,178 | 429,177 | 65,876 |
| *Granted overdrafts* | - | - | *159,967* | - |
| *Loans for houses and flats* | *1,069,103* | *2,222,685* | *74,849* | *57,876* |
| *Consumer loans* | *385,544* | *458,837* | *87,248* | *5,678* |
| *Other loans* | *176* | *656* | *107,113* | *2,322* |
| Loans to other customers | 1,361,344 | 3,083,389 | 811,587 | 449,908 |
| *Loans to large corporate customers* | *899,357* | *1,631,434* | *519,137* | *238,250* |
| *Loans to small and medium size enterprises* | *461,987* | *1,451,955* | *292,450* | *211,658* |
| Other financial assets | 292 | 3,181 | 47,544 | 363 |
| **TOTAL** | **3,611,375** | **6,602,661** | **2,295,586** | **516,884** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | |
|---|---|---|---|---|
| | Fully/over collateralised loans and advances | | Non-collateralised and under-collateralised loans and advances | |
| | Carrying value of loans and advances | Fair value of collateral | Carrying value of loans and advances | Fair value of collateral |
| Debt securities | 702,791 | 702,791 | - | - |
| Loans to government | 76,618 | 126,299 | 276,721 | 564 |
| Loans to banks | - | - | 160,569 | 6,013 |
| Loans to financial organizations | 12,335 | 29,434 | 642,901 | 2,765 |
| Loans to individuals | 1,448,106 | 2,733,748 | 410,069 | 72,149 |
| *Granted overdrafts* | - | - | *167,533* | - |
| *Loans for houses and flats* | *1,058,875* | *2,269,289* | *70,427* | *57,759* |
| *Consumer loans* | *388,920* | *463,515* | *114,227* | *12,078* |
| *Other loans* | *311* | *944* | *57,882* | *2,312* |
| Loans to other customers | 1,703,921 | 3,747,052 | 855,458 | 391,924 |
| *Loans to large corporate customers* | *1,144,397* | *2,101,478* | *473,238* | *165,209* |
| *Loans to small and medium size enterprises* | *559,524* | *1,645,574* | *382,220* | *226,715* |
| Other financial assets | 352 | 1,388 | 40,985 | 11,062 |
| **TOTAL** | **3,944,123** | **7,340,712** | **2,386,703** | **484,477** |

in EUR thousand

| 31.12.2014 | NLB Group | | | |
|---|---|---|---|---|
| | Fully/over collateralised loans and advances | | Non-collateralised and under-collateralised loans and advances | |
| | Carrying value of loans and advances | Fair value of collateral | Carrying value of loans and advances | Fair value of collateral |
| Debt securities | 706,785 | 706,785 | - | - |
| Loans to government | 100,077 | 157,351 | 415,238 | 42,207 |
| Loans to banks | 101 | 149 | 271,239 | 1,404 |
| Loans to financial organizations | 20,254 | 50,942 | 133,878 | 961 |
| Loans to individuals | 2,003,136 | 4,305,935 | 800,166 | 94,088 |
| *Granted overdrafts* | - | - | *192,738* | - |
| *Loans for houses and flats* | *1,328,649* | *3,128,381* | *113,373* | *62,812* |
| *Consumer loans* | *611,567* | *1,044,552* | *299,185* | *7,550* |
| *Other loans* | *62,920* | *133,002* | *194,870* | *23,726* |
| Loans to other customers | 2,165,561 | 6,162,405 | 1,070,022 | 623,350 |
| *Loans to large corporate customers* | *1,220,761* | *2,814,455* | *598,602* | *269,283* |
| *Loans to small and medium size enterprises* | *944,800* | *3,347,950* | *471,420* | *354,067* |
| Other financial assets | 1,897 | 5,540 | 69,872 | 409 |
| **TOTAL** | **4,997,811** | **11,389,107** | **2,760,415** | **762,419** |

in EUR thousand

| 31.12.2013 | NLB Group | | | |
|---|---|---|---|---|
| | Fully/over collateralised loans and advances | | Non-collateralised and under-collateralised loans and advances | |
| | Carrying value of loans and advances | Fair value of collateral | Carrying value of loans and advances | Fair value of collateral |
| Debt securities | 702,791 | 702,791 | - | - |
| Loans to government | 109,832 | 196,437 | 369,588 | 576 |
| Loans to banks | 308 | 355 | 224,282 | 6,950 |
| Loans to financial organizations | 14,131 | 32,488 | 155,290 | 3,429 |
| Loans to individuals | 2,025,909 | 4,390,785 | 690,173 | 105,691 |
| *Granted overdrafts* | - | - | *199,647* | - |
| *Loans for houses and flats* | *1,313,750* | *3,206,040* | *100,898* | *63,553* |
| *Consumer loans* | *636,560* | *1,027,605* | *255,895* | *17,721* |
| *Other loans* | *75,599* | *157,140* | *133,733* | *24,417* |
| Loans to other customers | 2,537,064 | 6,929,461 | 1,139,443 | 610,366 |
| *Loans to large corporate customers* | *1,402,851* | *3,073,555* | *600,932* | *274,882* |
| *Loans to small and medium size enterprises* | *1,134,213* | *3,855,906* | *538,511* | *335,484* |
| Other financial assets | 1,236 | 12,081 | 62,683 | 11,179 |
| **TOTAL** | **5,391,271** | **12,264,398** | **2,641,459** | **738,191** |

## f) Credit protection policy

The NLB Group applies a single set of standards to retail and corporate loan collateral, developed by the members through the collateral harmonisation project. The master document regulating loan collaterals in the NLB Group is the Loan Collateral Policy in the NLB and the NLB Group. The Policy has been adopted by the Management Board of NLB d.d. and by supervisory bodies of respective members for other members of the NLB Group. The Policy represents the basic orientations the bank employees must take into account when signing, evaluating, monitoring and reporting collateral, with the aim of reducing credit risk. The NLB Group members apply the NLB d.d.'s Policy having only made the necessary changes.

The 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. In the case of a lower probability that such an item of collateral would generate a cash flow, a conservative approach is followed and such collateral is not reported.

## g) The processes for valuing collateral

Pursuant to the law, the NLB Group has set up the system for monitoring and reporting collateral at fair (market) value. Asset-backed collateral is evaluated prior to the granting of a loan.

The market value of real estate or movable property used as collateral is obtained from valuation reports of licensed appraisers or, for low contract amounts, from sales agreements not older than one year. The market value of financial instruments held by the NLB Group is obtained from the organised market – 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 d.d. has compiled a reference list of licensed appraisers. All appraisals must be made for the purpose of secured lending and in accordance with the International Valuation Standards (IVS). Appraisals related to retail loans are generally ordered only from appraisers with whom the bank has a contract for real-estate valuations. For corporate loans, appraisals are usually submitted by clients. If a client submits an appraisal not made by an appraiser included on the bank's reference list, the expert department employing licensed appraisers (certified appraisers in construction with licences granted by the Ministry of Justice, and certified real-estate value appraisers with licences granted by the Slovenian Institute of Auditors) will verify the appraisal. The expert department is also responsible for valuations of real estate serving as collateral for large loans.

Other NLB Group members obtain valuations from in-house appraisers and outsourced appraisers, all having the necessary licences. The NLB Group has compiled a reference list of appraisers for valuations of real estate located outside Slovenia. Appraisals must be made in accordance with the IVS.

When assuring collateral, the NLB Group follows the internal regulations which define the minimum security or pledge ratios. The 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. In the case of a reduced value of collateral and/or deteriorated debtor credit rating, additional collateral is sought as necessary and in accordance with the contractual provisions.

If real estate, movable property and financial instruments act as collateral, the bank's lien should be entered as top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can be entered with a different priority order.

The 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) based on public records and indexes of real-estate value published by the relevant government authorities (the Surveying and Mapping Authority in Slovenia).

## h) 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 offset the amount of exposure against the counterparty's debt to the bank.

The NLB Group accepts the following material types of loan collateral:
- asset-backed collateral:
  - collateral backed by business and residential real estate;
  - collateral backed by 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, portfolios under management);
  - pledge of an equity stake;
  - pledge or assignment of receivables as collateral; and
- other material forms of loan collateral (life insurance policies pledged to the bank etc.).

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.

The 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
- insurance with an insurance company etc.

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 analysis of data on the debtor (the debtor's credit rating and creditworthiness) and loan maturity; the difference arises from whether the loan is granted to retail or a corporate client. Corporate clients (companies and sole proprietors) must submit bills of exchange with written authorities for the creditor to fill them in for every loan.

In addition, NLB d.d. has set up the independent assessment of key risks involved in a loan in the process of redesigning the lending process with the aim of improving risk management in corporate loans. Upon the preparation of a loan proposal, the NLB d.d.'s expert department (Credit Risk-Corporate and Retail) gives an opinion on loan collateral in the process of co-deciding or by preparing an opinion on the loan applying the set criteria.

NLB d.d. has also created, in the area of real-estate loan collateral, an 'on-line' connection with the Surveying and Mapping Authority in 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, 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, it is followed by insurance companies and guarantors.

### i) Market or credit risk concentrations within the credit collateral taken

Client/counterparty credit risk is very important for loan approval and therefore a detailed analysis of a client's creditworthiness is performed. Collateral is only a secondary source of repayment and a decision on loan approval should not be based on the quality of collateral. However, collateral does play an important role in cases where the client's creditworthiness deteriorates, though. The NLB Group has prescribed the minimum ratios between the value of collateral and loan amount to avoid the effects of risks related to individual forms of collateral. The ratios reflect the underlying risk of an item of collateral and the client and are set based on experience and regulatory guidelines and prescribed in the Collaterals Manual.

In the current situation where collateral could lose its value, the NLB Group pays particular attention to closely monitoring the fair value of collateral and regular and independent revaluation by applying the International Valuation Standards. Through a detailed examination of all collateral received, NLB d.d. has ensured that only that collateral is taken into account from which payment can be realistically expected if it is liquidated.

The NLB Group has the largest concentration arising from real estate collateral, which used to be deemed a reliable and quality type of collateral; however, it has lost these attributes in the situation of the limited liquidity of the real-estate market and falling real-estate market prices. Consequently, the NLB Group is establishing higher amounts of impairments and provisions for non-performing loans secured by real estate, based on the estimated discounts of real estate value (specified in the Collaterals Manual) which will be achieved in a sale (liquidation value).

Collateral using 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 the loan amount, the Rules on determining pledge ratios for securing loans on the basis of pledged securities and equity shares in NLB d.d. specify the minimum ratios between the loan amount and the securities' value. Any deviation from the Rules is subject to the prior approval of the Credit Committee or the Management Board. 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 price volatility 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 the 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 using sureties of retail or corporate clients and using guarantees entails the credit risk of the provider of the collateral. Therefore, the NLB Group includes the amount of the guarantees received in the debt ceiling of the guarantor where the guarantees are only applied to the amount of the guarantor's creditworthiness remaining after their own liabilities have been settled. A client's creditworthiness thus includes the potential credit risk arising from the realisation of collateral.

The Collaterals Manual regulates the taking of collateral, liquidation and properties of collateral that are needed for collateral to comply with the law and the internal rules. It is a method the NLB Group uses to eliminate operational and legal risks. The NLB Group is thus not restricting the scope of collateral entailing market and credit risk but monitors it regularly (by volume and value).

## j) Loans and advances neither past due nor impaired

in EUR thousand

| 31.12.2014 | NLB d.d. | | | | | NLB Group | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | D and E | Total | A | B | C | D and E | Total |
| Debt securities | 706,785 | - | - | - | 706,785 | 706,785 | - | - | - | 706,785 |
| Loans to government | 255,141 | 116,526 | 4,377 | - | 376,044 | 323,685 | 167,132 | 8,337 | 38 | 499,192 |
| Loans to banks | 120,923 | 36,699 | 1,673 | - | 159,295 | 262,894 | 1,197 | 1,673 | - | 265,764 |
| Loans to financial organizations | 24,807 | 442 | 45,778 | - | 71,027 | 33,142 | 3,187 | 6,953 | - | 43,282 |
| Loans to individuals | 1,772,009 | 6,142 | 16,474 | - | 1,794,625 | 2,487,467 | 21,496 | 23,394 | 232 | 2,532,589 |
| *Granted overdrafts* | *147,443* | *392* | *997* | *-* | *148,832* | *163,277* | *480* | *1,027* | *-* | *164,784* |
| *Loans for houses and flats* | *1,084,702* | *5,158* | *13,713* | *-* | *1,103,573* | *1,320,541* | *11,796* | *17,916* | *1* | *1,350,254* |
| *Consumer loans* | *447,298* | *202* | *1,322* | *-* | *448,822* | *811,640* | *8,255* | *3,757* | *188* | *823,840* |
| *Other loans* | *92,566* | *390* | *442* | *-* | *93,398* | *192,009* | *965* | *694* | *43* | *193,711* |
| Loans to other customers | 712,874 | 522,026 | 318,941 | 22,149 | 1,575,990 | 937,576 | 821,558 | 417,842 | 30,802 | 2,207,778 |
| *Loans to large corporate customers* | *655,438* | *318,345* | *174,755* | *18,570* | *1,167,108* | *765,370* | *446,558* | *220,779* | *23,634* | *1,456,341* |
| *Loans to small and medium size enterprises* | *57,436* | *203,681* | *144,186* | *3,579* | *408,882* | *172,206* | *375,000* | *197,063* | *7,168* | *751,437* |
| Other financial assets | 41,295 | 2,121 | 1,471 | - | 44,887 | 56,356 | 2,510 | 1,573 | 11 | 60,450 |
| **TOTAL** | **3,633,834** | **683,956** | **388,714** | **22,149** | **4,728,653** | **4,807,905** | **1,017,080** | **459,772** | **31,083** | **6,315,840** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | | NLB Group | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | C | D and E | Total | A | B | C | D and E | Total |
| Debt securities | 80,218 | 622,573 | - | - | 702,791 | 80,218 | 622,573 | - | - | 702,791 |
| Loans to government | 283,337 | 49,416 | 9,454 | - | 342,207 | 386,072 | 59,296 | - | - | 445,368 |
| Loans to banks | 75,862 | 61,552 | 8,992 | 10,182 | 156,588 | 190,422 | 1,025 | 9,019 | 10,182 | 210,648 |
| Loans to financial organizations | 19,227 | 342,096 | 55,609 | - | 416,932 | 22,094 | 93,715 | 17,235 | - | 133,044 |
| Loans to individuals | 1,759,900 | 9,806 | 20,064 | - | 1,789,770 | 2,479,595 | 36,375 | 29,868 | - | 2,545,838 |
| *Granted overdrafts* | *154,858* | *814* | *2,225* | - | *157,897* | *183,588* | *2,223* | *2,469* | - | *188,280* |
| *Loans for houses and flats* | *1,072,101* | *7,082* | *15,122* | - | *1,094,305* | *1,327,872* | *13,481* | *19,458* | - | *1,360,811* |
| *Consumer loans* | *480,117* | *1,804* | *2,624* | - | *484,545* | *799,153* | *17,453* | *7,460* | - | *824,066* |
| *Other loans* | *52,824* | *106* | *93* | - | *53,023* | *168,982* | *3,218* | *481* | - | *172,681* |
| Loans to other customers | 940,316 | 533,789 | 445,013 | 6,486 | 1,925,604 | 1,271,284 | 774,178 | 464,941 | 7,245 | 2,517,648 |
| *Loans to large corporate customers* | *816,091* | *322,770* | *191,500* | *1,644* | *1,332,005* | *995,678* | *378,586* | *192,191* | *1,735* | *1,568,190* |
| *Loans to small and medium size enterprises* | *124,225* | *211,019* | *253,513* | *4,842* | *593,599* | *275,606* | *395,592* | *272,750* | *5,510* | *949,458* |
| Other financial assets | 23,670 | 4,502 | 1,634 | 42 | 29,848 | 38,260 | 4,691 | 2,112 | 71 | 45,134 |
| **TOTAL** | **3,182,530** | **1,623,734** | **540,766** | **16,710** | **5,363,740** | **4,467,945** | **1,591,853** | **523,175** | **17,498** | **6,600,471** |

## k) Loans and advances past due but not individually impaired

in EUR thousand

| 31.12.2014 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Up to 30 days | Up to 90 days | Over 90 days | Total | Up to 30 days | Up to 90 days | Over 90 days | Total |
| Loans to government | 202 | - | - | 202 | 3,941 | 4 | - | 3,945 |
| Loans to banks | - | - | - | - | 5 | - | - | 5 |
| Loans to financial organizations | 5 | 1 | - | 6 | 21 | 13 | 13 | 47 |
| Loans to individuals | 36,541 | 1,546 | - | 38,087 | 176,769 | 20,115 | 3,885 | 200,769 |
| *Granted overdrafts* | *3,918* | *440* | - | *4,358* | *20,330* | *511* | *111* | *20,952* |
| *Loans for houses and flats* | *11,390* | *385* | - | *11,775* | *48,480* | *5,491* | *1,773* | *55,744* |
| *Consumer loans* | *11,295* | *2* | - | *11,297* | *62,425* | *3,018* | *449* | *65,892* |
| *Other loans* | *9,938* | *719* | - | *10,657* | *45,534* | *11,095* | *1,552* | *58,181* |
| Loans to other customers | 8,686 | 227 | 3,454 | 12,367 | 145,613 | 24,829 | 20,247 | 190,689 |
| *Loans to large corporate customers* | *631* | - | - | *631* | *37,482* | *1,842* | *3,559* | *42,883* |
| *Loans to small and medium size enterprises* | *8,055* | *227* | *3,454* | *11,736* | *108,131* | *22,987* | *16,688* | *147,806* |
| Other financial assets | 54 | 2 | 5 | 61 | 4,060 | 241 | 270 | 4,571 |
| **TOTAL** | **45,488** | **1,776** | **3,459** | **50,723** | **330,409** | **45,202** | **24,415** | **400,026** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Up to 30 days | Up to 90 days | Over 90 days | Total | Up to 30 days | Up to 90 days | Over 90 days | Total |
| Loans to government | - | - | - | - | 11,556 | 696 | 452 | 12,704 |
| Loans to banks | - | - | - | - | 11 | - | 21 | 32 |
| Loans to financial organizations | - | - | - | - | 103 | 8 | - | 111 |
| Loans to individuals | 17,701 | 1,587 | 11 | 19,299 | 70,486 | 15,074 | 4,907 | 90,467 |
| *Granted overdrafts* | *1,589* | *504* | - | *2,093* | *2,880* | *592* | *204* | *3,676* |
| *Loans for houses and flats* | *11,270* | *340* | - | *11,610* | *18,251* | *5,862* | *1,202* | *25,315* |
| *Consumer loans* | *3,083* | *279* | *11* | *3,373* | *30,133* | *3,623* | *11* | *33,767* |
| *Other loans* | *1,759* | *464* | - | *2,223* | *19,222* | *4,997* | *3,490* | *27,709* |
| Loans to other customers | 203 | 537 | 7,103 | 7,843 | 61,799 | 40,089 | 40,044 | 141,932 |
| *Loans to large corporate customers* | - | - | *6,150* | *6,150* | *18,295* | *8,814* | *10,929* | *38,038* |
| *Loans to small and medium size enterprises* | *203* | *537* | *953* | *1,693* | *43,504* | *31,275* | *29,115* | *103,894* |
| Other financial assets | 40 | 3 | 80 | 123 | 3,259 | 201 | 947 | 4,407 |
| **TOTAL** | **17,944** | **2,127** | **7,194** | **27,265** | **147,214** | **56,068** | **46,371** | **249,653** |

* The loans and advances disclosed in the tables above are not individually impaired, since they are fully or over collateralised and are included in the collective evaluation of impairment.

## l) Individually impaired loans and advances

in EUR thousand

| 31.12.2014 | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Gross value | Impairment provision | Net value | Gross value | Impairment provision | Net value |
| Loans to government | 14,388 | (3,256) | 11,132 | 16,413 | (4,235) | 12,178 |
| Loans to banks | 687 | (682) | 5 | 30,285 | (24,714) | 5,571 |
| Loans to financial organizations | 637,348 | (159,650) | 477,698 | 147,979 | (37,176) | 110,803 |
| Loans to individuals | 110,394 | (59,106) | 51,288 | 193,283 | (123,339) | 69,944 |
| *Granted overdrafts* | *16,509* | *(9,732)* | *6,777* | *19,188* | *(12,186)* | *7,002* |
| *Loans for houses and flats* | *54,151* | *(25,547)* | *28,604* | *71,693* | *(35,669)* | *36,024* |
| *Consumer loans* | *32,662* | *(19,989)* | *12,673* | *72,018* | *(50,998)* | *21,020* |
| *Other loans* | *7,072* | *(3,838)* | *3,234* | *30,384* | *(24,486)* | *5,898* |
| Loans to other customers | 1,285,603 | (701,029) | 584,574 | 2,145,797 | (1,308,681) | 837,116 |
| *Loans to large corporate customers* | *527,787* | *(277,032)* | *250,755* | *748,292* | *(428,153)* | *320,139* |
| *Loans to small and medium size enterprises* | *757,816* | *(423,997)* | *333,819* | *1,397,505* | *(880,528)* | *516,977* |
| Other financial assets | 19,792 | (16,904) | 2,888 | 48,010 | (41,262) | 6,748 |
| **TOTAL** | **2,068,212** | **(940,627)** | **1,127,585** | **2,581,767** | **(1,539,407)** | **1,042,360** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Gross value | Impairment provision | Net value | Gross value | Impairment provision | Net value |
| Debt securities | 3.750 | (3.750) | - | 3.750 | (3.750) | - |
| Loans to government | 15.247 | (4.115) | 11.132 | 26.898 | (5.550) | 21.348 |
| Loans to banks | 14.531 | (10.550) | 3.981 | 42.527 | (28.617) | 13.910 |
| Loans to financial organizations | 425.472 | (187.168) | 238.304 | 91.070 | (54.804) | 36.266 |
| Loans to individuals | 105.074 | (55.968) | 49.106 | 206.401 | (126.624) | 79.777 |
| *Granted overdrafts* | *17.976* | *(10.433)* | *7.543* | *21.052* | *(13.361)* | *7.691* |
| *Loans for houses and flats* | *43.842* | *(20.455)* | *23.387* | *63.795* | *(35.273)* | *28.522* |
| *Consumer loans* | *37.044* | *(21.815)* | *15.229* | *91.874* | *(57.252)* | *34.622* |
| *Other loans* | *6.212* | *(3.265)* | *2.947* | *29.680* | *(20.738)* | *8.942* |
| Loans to other customers | 1.369.281 | (743.349) | 625.932 | 2.434.802 | (1.417.875) | 1.016.927 |
| *Loans to large corporate customers* | *564.384* | *(284.904)* | *279.480* | *826.932* | *(429.377)* | *397.555* |
| *Loans to small and medium size enterprises* | *804.897* | *(458.445)* | *346.452* | *1.607.870* | *(988.498)* | *619.372* |
| Other financial assets | 48.412 | (37.046) | 11.366 | 77.574 | (63.206) | 14.368 |
| **TOTAL** | **1.981.767** | **(1.041.946)** | **939.821** | **2.883.022** | **(1.700.426)** | **1.182.596** |

*The above tables include also loans and advances with individual signs of impairment, which are collectively impaired due to their immateriality.

## m) Loans and advances analysis

in EUR thousand

| 31.12.2014 | NLB d.d. | | | |
|---|---|---|---|---|
| | Loans and advances neither past due nor impaired | Loans and advances past due but not impaired | Individually impaired loans and advances | Total |
| Debt securities | 706,785 | - | - | 706,785 |
| Loans to government | 376,044 | 202 | 11,132 | 387,378 |
| Loans to banks | 159,295 | - | 5 | 159,300 |
| Loans to financial organizations | 71,027 | 6 | 477,698 | 548,731 |
| Loans to individuals | 1,794,625 | 38,087 | 51,288 | 1,884,000 |
| *Granted overdrafts* | *148,832* | *4,358* | *6,777* | *159,967* |
| *Loans for houses and flats* | *1,103,573* | *11,775* | *28,604* | *1,143,952* |
| *Consumer loans* | *448,822* | *11,297* | *12,673* | *472,792* |
| *Other loans* | *93,398* | *10,657* | *3,234* | *107,289* |
| Loans to other customers | 1,575,990 | 12,367 | 584,574 | 2,172,931 |
| *Loans to large corporate customers* | *1,167,108* | *631* | *250,755* | *1,418,494* |
| *Loans to small and medium size enterprises* | *408,882* | *11,736* | *333,819* | *754,437* |
| Other financial assets | 44,887 | 61 | 2,888 | 47,836 |
| **TOTAL** | **4,728,653** | **50,723** | **1,127,585** | **5,906,961** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | |
|---|---|---|---|---|
| | Loans and advances neither past due nor impaired | Loans and advances past due but not impaired | Individually impaired loans and advances | Total |
| Debt securities | 702,791 | - | - | 702,791 |
| Loans to government | 342,207 | - | 11,132 | 353,339 |
| Loans to banks | 156,588 | - | 3,981 | 160,569 |
| Loans to financial organizations | 416,932 | - | 238,304 | 655,236 |
| Loans to individuals | 1,789,770 | 19,299 | 49,106 | 1,858,175 |
| *Granted overdrafts* | *157,897* | *2,093* | *7,543* | *167,533* |
| *Loans for houses and flats* | *1,094,305* | *11,610* | *23,387* | *1,129,302* |
| *Consumer loans* | *484,545* | *3,373* | *15,229* | *503,147* |
| *Other loans* | *53,023* | *2,223* | *2,947* | *58,193* |
| Loans to other customers | 1,925,604 | 7,843 | 625,932 | 2,559,379 |
| *Loans to large corporate customers* | *1,332,005* | *6,150* | *279,480* | *1,617,635* |
| *Loans to small and medium size enterprises* | *593,599* | *1,693* | *346,452* | *941,744* |
| Other financial assets | 29,848 | 123 | 11,366 | 41,337 |
| **TOTAL** | **5,363,740** | **27,265** | **939,821** | **6,330,826** |

in EUR thousand

| 31.12.2014 | 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 | 706,785 | - | - | 706,785 |
| Loans to government | 499,192 | 3,945 | 12,178 | 515,315 |
| Loans to banks | 265,764 | 5 | 5,571 | 271,340 |
| Loans to financial organizations | 43,282 | 47 | 110,803 | 154,132 |
| Loans to individuals | 2,532,589 | 200,769 | 69,944 | 2,803,302 |
| *Granted overdrafts* | *164,784* | *20,952* | *7,002* | *192,738* |
| *Loans for houses and flats* | *1,350,254* | *55,744* | *36,024* | *1,442,022* |
| *Consumer loans* | *823,840* | *65,892* | *21,020* | *910,752* |
| *Other loans* | *193,711* | *58,181* | *5,898* | *257,790* |
| Loans to other customers | 2,207,778 | 190,689 | 837,116 | 3,235,583 |
| *Loans to large corporate customers* | *1,456,341* | *42,883* | *320,139* | *1,819,363* |
| *Loans to small and medium size enterprises* | *751,437* | *147,806* | *516,977* | *1,416,220* |
| Other financial assets | 60,450 | 4,571 | 6,748 | 71,769 |
| **TOTAL** | **6,315,840** | **400,026** | **1,042,360** | **7,758,226** |

in EUR thousand

| 31.12.2013 | 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 | 702,791 | - | - | 702,791 |
| Loans to government | 445,368 | 12,704 | 21,348 | 479,420 |
| Loans to banks | 210,648 | 32 | 13,910 | 224,590 |
| Loans to financial organizations | 133,044 | 111 | 36,266 | 169,421 |
| Loans to individuals | 2,545,838 | 90,467 | 79,777 | 2,716,082 |
| *Granted overdrafts* | *188,280* | *3,676* | *7,691* | *199,647* |
| *Loans for houses and flats* | *1,360,811* | *25,315* | *28,522* | *1,414,648* |
| *Consumer loans* | *824,066* | *33,767* | *34,622* | *892,455* |
| *Other loans* | *172,681* | *27,709* | *8,942* | *209,332* |
| Loans to other customers | 2,517,648 | 141,932 | 1,016,927 | 3,676,507 |
| *Loans to large corporate customers* | *1,568,190* | *38,038* | *397,555* | *2,003,783* |
| *Loans to small and medium size enterprises* | *949,458* | *103,894* | *619,372* | *1,672,724* |
| Other financial assets | 45,134 | 4,407 | 14,368 | 63,909 |
| **TOTAL** | **6,600,471** | **249,653** | **1,182,596** | **8,032,720** |

## n) Repossessed assets

NLB d.d. and the NLB Group received the following assets by taking possession of collateral held as security and held them at the reporting date:

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Nature of assets** | Carrying amount | | Carrying amount | |
| Securities (note 5.4.b) | 28,052 | 67,677 | 28,052 | 67,677 |
| Non-current assets held for sale (note 5.8.a) | - | - | - | 10,481 |
| Investment property (note 5.10.) | - | - | 8,291 | 701 |
| Property and equipment (note 5.9.) | 7 | 7 | 267 | 7 |
| Investments in associates | 448 | - | - | - |
| Other assets (note 5.13.) | 1,561 | 1,632 | 116,606 | 131,180 |
| **TOTAL** | **30,068** | **69,316** | **153,216** | **210,046** |

## o) Analysis of loans and advances by industry sectors

in EUR thousand

| | NLB d.d. | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | | | 31.12.2013 | | | |
| **Industry sector** | Gross loans | Impairment provisions | Net loans | (%) | Gross loans | Impairment provisions | Net loans | (%) |
| Banks | 159,982 | (682) | 159,300 | 2.70 | 174,869 | (14,300) | 160,569 | 2.54 |
| Finance | 745,364 | (163,620) | 581,744 | 9.85 | 903,236 | (201,965) | 701,271 | 11.08 |
| Electricity, gas and water | 109,684 | (38,332) | 71,352 | 1.21 | 141,907 | (44,055) | 97,852 | 1.55 |
| Construction industry | 203,654 | (110,069) | 93,585 | 1.59 | 231,895 | (117,748) | 114,147 | 1.80 |
| Heavy industry | 806,252 | (181,777) | 624,475 | 10.57 | 892,325 | (175,552) | 716,773 | 11.32 |
| Education | 12,423 | (417) | 12,006 | 0.20 | 12,249 | (559) | 11,690 | 0.18 |
| Agriculture, forestry and fishing | 60,365 | (38,465) | 21,900 | 0.37 | 62,707 | (39,897) | 22,810 | 0.36 |
| Public sector | 309,576 | (2,913) | 306,663 | 5.19 | 287,934 | (1,646) | 286,288 | 4.52 |
| Individuals | 1,958,806 | (74,806) | 1,884,000 | 31.90 | 1,933,049 | (74,874) | 1,858,175 | 29.35 |
| Mining | 25,203 | (6,729) | 18,474 | 0.31 | 27,810 | (9,243) | 18,567 | 0.29 |
| Entrepreneurs | 79,175 | (17,629) | 61,546 | 1.04 | 98,873 | (21,645) | 77,228 | 1.22 |
| Services | 1,129,139 | (160,844) | 968,295 | 16.39 | 1,205,923 | (165,987) | 1,039,936 | 16.43 |
| Transport and communications | 790,812 | (26,927) | 763,885 | 12.93 | 832,974 | (22,221) | 810,753 | 12.81 |
| Trade industry | 448,667 | (171,670) | 276,997 | 4.69 | 551,361 | (196,281) | 355,080 | 5.61 |
| Health care and social security | 19,087 | (4,184) | 14,903 | 0.25 | 20,978 | (2,628) | 18,350 | 0.29 |
| Other financial assets | 65,357 | (17,521) | 47,836 | 0.81 | 78,981 | (37,644) | 41,337 | 0.65 |
| **TOTAL** | **6,923,546** | **(1,016,585)** | **5,906,961** | **100.00** | **7,457,071** | **(1,126,245)** | **6,330,826** | **100.00** |

in EUR thousand

| | NLB Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | | | 31.12.2013 | | | |
| **Industry sector** | Gross loans | Impairment provisions | Net loans | (%) | Gross loans | Impairment provisions | Net loans | (%) |
| Banks | 296,062 | (24,722) | 271,340 | 3.50 | 256,957 | (32,367) | 224,590 | 2.80 |
| Finance | 228,583 | (38,569) | 190,014 | 2.45 | 290,731 | (72,850) | 217,881 | 2.71 |
| Electricity, gas and water | 141,029 | (47,370) | 93,659 | 1.21 | 168,150 | (54,291) | 113,859 | 1.42 |
| Construction industry | 423,906 | (233,886) | 190,020 | 2.45 | 468,392 | (236,702) | 231,690 | 2.88 |
| Heavy industry | 1,152,483 | (352,129) | 800,354 | 10.32 | 1,260,056 | (377,137) | 882,919 | 10.99 |
| Education | 15,001 | (1,400) | 13,601 | 0.18 | 20,108 | (2,141) | 17,967 | 0.22 |
| Agriculture, forestry and fishing | 100,267 | (55,862) | 44,405 | 0.57 | 106,593 | (61,747) | 44,846 | 0.56 |
| Public sector | 450,651 | (16,051) | 434,600 | 5.60 | 423,584 | (11,214) | 412,370 | 5.13 |
| Individuals | 2,957,961 | (154,659) | 2,803,302 | 36.13 | 2,875,010 | (158,928) | 2,716,082 | 33.81 |
| Mining | 90,849 | (20,757) | 70,092 | 0.90 | 91,110 | (29,593) | 61,517 | 0.77 |
| Entrepreneurs | 112,982 | (23,714) | 89,268 | 1.15 | 131,320 | (32,226) | 99,094 | 1.23 |
| Services | 1,410,358 | (279,680) | 1,130,678 | 14.57 | 1,530,756 | (280,783) | 1,249,973 | 15.56 |
| Transport and communications | 866,063 | (45,759) | 820,304 | 10.57 | 912,884 | (44,821) | 868,063 | 10.81 |
| Trade industry | 1,062,444 | (354,350) | 708,094 | 9.13 | 1,187,705 | (389,226) | 798,479 | 9.94 |
| Health care and social security | 40,844 | (14,118) | 26,726 | 0.34 | 42,090 | (12,609) | 29,481 | 0.37 |
| Other financial assets | 114,449 | (42,680) | 71,769 | 0.93 | 130,003 | (66,084) | 63,919 | 0.80 |
| **TOTAL** | **9,463,932** | **(1,705,706)** | **7,758,226** | **100.00** | **9,895,449** | **(1,862,719)** | **8,032,730** | **100.00** |

## p) Analysis of loans and advances by geographical sectors

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Country** | | | | |
| Republic of Slovenia | 5,125,829 | 5,457,089 | 5,076,723 | 5,400,910 |
| Other European Union members | 177,966 | 125,588 | 320,214 | 450,337 |
| Other countries | 555,330 | 706,812 | 2,289,520 | 2,117,564 |
| **TOTAL** | **5,859,125** | **6,289,489** | **7,686,457** | **7,968,811** |

The analysis of loans and advances by geographical sector excludes other financial assets.

## r) Analysis of debt securities, treasury bills, other eligible bills and derivative financial instruments by geographical sectors

in EUR thousand

| 31.12.2014 | NLB d.d. | | | | | NLB Group | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Loans and advances | Trading assets | Available-for-sale financial assets | Held-to-maturity financial assets | Derivative financial instruments | Loans and advances | Trading assets | Financial assets designated at fair value through profit or loss | Available-for-sale financial assets | Held-to-maturity financial assets | Derivative financial instruments |
| Republic of Slovenia | 706,785 | 97,248 | 579,119 | 461,486 | 13,576 | 706,785 | 97,248 | - | 659,451 | 461,486 | 12,981 |
| Other members of European Union | - | - | 564,969 | 250,162 | 29,915 | - | - | 544 | 596,825 | 250,162 | 29,921 |
| *- Italy* | - | - | - | *10,107* | - | - | - | - | - | *10,107* | - |
| *- Ireland* | - | - | *2,472* | *5,166* | - | - | - | *99* | *2,472* | *5,166* | - |
| *- France* | - | - | *71,169* | *35,673* | *107* | - | - | *105* | *78,378* | *35,672* | *107* |
| *- Belgium* | - | - | *47,819* | *6,046* | *2,966* | - | - | - | *66,257* | *6,046* | *2,966* |
| *- Netherlands* | - | - | *58,128* | *41,734* | *14,186* | - | - | - | *58,128* | *41,734* | *14,186* |
| *- Austria* | - | - | *57,186* | *42,831* | - | - | - | - | *63,395* | *42,831* | - |
| *- Germany* | - | - | *130,315* | *77,186* | *4,058* | - | - | - | *130,315* | *77,186* | *4,058* |
| *- Finland* | - | - | *39,109* | *13,634* | - | - | - | - | *39,109* | *13,634* | - |
| *- Sweden* | - | - | *32,190* | - | - | - | - | - | *32,190* | - | - |
| *- Denmark* | - | - | *23,327* | - | - | - | - | - | *23,327* | - | - |
| *- Luxemburg* | - | - | *63,260* | *14,706* | - | - | - | - | *63,260* | *14,706* | - |
| *- Great Britain* | - | - | *20,595* | - | *8,598* | - | - | *340* | *20,595* | - | *8,598* |
| *- Slovakia* | - | - | *15,777* | *2,058* | - | - | - | - | *15,777* | *2,058* | - |
| *- Other* | - | - | *3,622* | *1,021* | - | - | - | - | *3,622* | *1,022* | *6* |
| United States of America | - | - | 6,778 | - | - | - | - | - | 6,778 | - | - |
| Other countries | - | 892 | 2,067 | - | 121 | - | 892 | 341 | 377,037 | - | 120 |
| *- Macedonia* | - | - | - | - | - | - | - | - | *173,651* | - | - |
| *- Serbia* | - | - | - | - | *1* | - | - | - | *88,580* | - | - |
| *- Bosnia and Herzegovina* | - | - | - | - | - | - | - | - | *40,317* | - | - |
| *- Montenegro* | - | - | - | - | - | - | - | - | *23,364* | - | - |
| *- Switzerland* | - | - | *2,067* | - | - | - | - | - | *2,067* | - | - |
| *- Kosovo* | - | - | - | - | *120* | - | - | - | *49,058* | - | *120* |
| *- Other* | - | *892* | - | - | - | - | *892* | *341* | - | - | - |
| **TOTAL** | **706,785** | **98,140** | **1,152,933** | **711,648** | **43,612** | **706,785** | **98,140** | **885** | **1,640,091** | **711,648** | **43,022** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | | NLB Group | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Loans and advances | Trading assets | Available-for-sale financial assets | Held-to-maturity financial assets | Derivative financial instruments | Loans and advances | Trading assets | Financial assets designated at fair value through profit or loss | Available-for-sale financial assets | Held-to-maturity financial assets | Derivative financial instruments |
| Republic of Slovenia | 702,791 | 46,780 | 855,350 | 606,283 | 12,454 | 702,791 | 46,780 | - | 928,914 | 606,283 | 11,954 |
| Other members of European Union | - | 7,797 | 223,981 | 257,976 | 21,491 | - | 7,797 | 544 | 310,906 | 257,976 | 21,491 |
| *- Italy* | - | - | - | *10,066* | - | - | - | - | - | *10,066* | - |
| *- Ireland* | - | - | *5,188* | *5,170* | - | - | - | - | *5,188* | *5,170* | - |
| *- France* | - | - | *5,331* | *63,133* | *203* | - | - | *98* | *20,639* | *63,133* | *203* |
| *- Belgium* | - | - | *68,237* | *18,256* | *5,888* | - | - | - | *133,607* | *18,256* | *5,888* |
| *- Netherlands* | - | - | *7,649* | *25,694* | *7,762* | - | - | - | *7,649* | *25,694* | *7,762* |
| *- Austria* | - | - | *49,579* | *29,095* | - | - | - | - | *55,826* | *29,095* | - |
| *- Germany* | - | - | *48,609* | *71,891* | *3,444* | - | - | *97* | *48,609* | *71,891* | *3,444* |
| *- Finland* | - | - | *3,163* | *10,578* | - | - | - | - | *3,163* | *10,578* | - |
| *- Luxemburg* | - | *7,797* | *22,347* | *14,718* | - | - | *7,797* | - | *22,347* | *14,718* | - |
| *- Great Britain* | - | - | *8,395* | - | *4,194* | - | - | *349* | *8,395* | - | *4,194* |
| *- Slovakia* | - | - | *4,443* | *5,189* | - | - | - | - | *4,443* | *5,189* | - |
| *- Other* | - | - | *1,040* | *4,186* | - | - | - | - | *1,040* | *4,186* | - |
| United States of America | - | - | 754 | - | 3,788 | - | - | - | 754 | - | 3,788 |
| Other countries | - | 785 | 5 | - | 125 | - | 785 | 351 | 356,774 | - | 181 |
| *- Macedonia* | - | - | - | - | - | - | - | - | *189,601* | - | - |
| *- Serbia* | - | - | - | - | *1* | - | - | - | *112,261* | - | - |
| *- Bosnia and Herzegovina* | - | - | - | - | - | - | - | - | *36,014* | - | - |
| *- Montenegro* | - | - | - | - | - | - | - | - | *18,893* | - | - |
| *- Switzerland* | - | - | - | - | *6* | - | - | - | - | - | *6* |
| *- Kosovo* | - | - | - | - | *118* | - | - | - | - | - | *118* |
| *- Other* | - | *785* | *5* | - | - | - | *785* | *351* | *5* | - | *57* |
| **TOTAL** | **702,791** | **55,362** | **1,080,090** | **864,259** | **37,858** | **702,791** | **55,362** | **895** | **1,597,348** | **864,259** | **37,414** |

## s) Internal rating of derivatives counterparties

| NLB d.d. and NLB Group | 31.12.2014 | 31.12.2013 |
|---|---|---|
| | in % | in % |
| A | 81.83 | 86.82 |
| B | 14.40 | 10.04 |
| C | 2.08 | 1.03 |
| D and E | 1.69 | 2.11 |
| **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 the 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.

## t) Debt securities in NLB d.d.'s and the NLB Group's portfolio that represent subordinated liabilities for the issuer

in EUR thousand

| 31.12.2014 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| Internal rating | A | B | C | Total | A | B | C | Total |
| Trading assets | 2,084 | - | - | 2,084 | 2,084 | - | - | 2,084 |
| Available-for-sale financial assets | 574 | - | - | 574 | 574 | - | - | 574 |
| Loans and advances | | | | | | | | |
| - loans and advances to banks | - | 11,685 | 1,340 | 13,025 | - | - | 1,340 | 1,340 |
| - loans and advances to customers | - | - | 23,665 | 23,665 | - | - | - | - |
| **TOTAL** | **2,658** | **11,685** | **25,005** | **39,348** | **2,658** | **-** | **1,340** | **3,998** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| Internal rating | A | B | C | Total | A | B | C | Total |
| Trading assets | 2,120 | - | - | 2,120 | 2,120 | - | - | 2,120 |
| Available-for-sale financial assets | 519 | - | - | 519 | 519 | - | - | 519 |
| Loans and advances | | | | | | | | |
| - loans and advances to banks | 7,695 | 3,976 | 3,378 | 15,049 | - | - | 3,378 | 3,378 |
| **TOTAL** | **10,334** | **3,976** | **3,378** | **17,688** | **2,639** | **-** | **3,378** | **6,017** |

## u) Presentation of financial instruments by measurement category

in EUR thousand

| 31.12.2014 | NLB d.d. | | | | | | |
|---|---|---|---|---|---|---|---|
| | Trading assets | Financial assets designated at fair value thorugh profit or loss | Available-for-sale financial assets | Loans and receivables | Held-to-maturity financial assets | Derivatives for hedge accounting | Total |
| Cash and obligatory reserves with central bank | - | - | - | 434,438 | - | - | 434,438 |
| Securities | 98,162 | 4,702 | 1,182,748 | 706,810 | 711,648 | - | 2,704,070 |
| - Bonds | 57,876 | - | 999,148 | 706,785 | 691,765 | - | 2,455,574 |
| - Shares | 22 | - | 29,815 | - | - | - | 29,837 |
| - Commercial bills | - | - | 78,973 | - | - | - | 78,973 |
| - Treasury bills | 40,264 | - | 74,812 | - | 19,883 | - | 134,959 |
| - Private equity fund | - | 4,702 | - | - | - | - | 4,702 |
| - Reverse sell and repurchase agreements | - | - | - | 25 | - | - | 25 |
| Derivatives | 40,646 | - | - | - | - | 2,966 | 43,612 |
| Loans and receivables | - | - | - | 5,152,315 | - | - | 5,152,315 |
| - Loans to government | - | - | - | 387,378 | - | - | 387,378 |
| - Loans to banks | - | - | - | 159,300 | - | - | 159,300 |
| - Loans to financial organizations | - | - | - | 548,731 | - | - | 548,731 |
| - Loans to individuals | - | - | - | 1,884,000 | - | - | 1,884,000 |
| *Granted overdrafts* | - | - | - | *159,967* | - | - | *159,967* |
| *Loans for houses and flats* | - | - | - | *1,143,952* | - | - | *1,143,952* |
| *Consumer loans* | - | - | - | *472,792* | - | - | *472,792* |
| *Other loans* | - | - | - | *107,289* | - | - | *107,289* |
| - Loans to other customers | - | - | - | 2,172,906 | - | - | 2,172,906 |
| *Loans to large corporate customers* | - | - | - | *1,418,469* | - | - | *1,418,469* |
| *Loans to small and medium size enterprises* | - | - | - | *754,437* | - | - | *754,437* |
| Other financial assets | - | - | - | 47,836 | - | - | 47,836 |
| **TOTAL FINANCIAL ASSETS** | **138,808** | **4,702** | **1,182,748** | **6,341,399** | **711,648** | **2,966** | **8,382,271** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | | | |
|---|---|---|---|---|---|---|---|
| | Trading assets | Financial assets designated at fair value thorugh profit or loss | Available-for-sale financial assets | Loans and receivables | Held-to-maturity financial assets | Derivatives for hedge accounting | Total |
| Cash and obligatory reserves with central bank | - | - | - | 590,645 | - | - | 590,645 |
| Securities | 72,347 | 3,801 | 1,155,412 | 707,432 | 864,259 | - | 2,803,251 |
| - Bonds | 17,544 | - | 985,129 | 702,791 | 728,308 | - | 2,433,772 |
| - Shares | 16,985 | - | 75,322 | - | - | - | 92,307 |
| - Treasury bills | 37,818 | - | 94,961 | - | 135,951 | - | 268,730 |
| - Private equity fund | - | 3,801 | - | - | - | - | 3,801 |
| - Reverse sell and repurchase agreements | - | - | - | 4,641 | - | - | 4,641 |
| Derivatives | 32,432 | - | - | - | - | 5,426 | 37,858 |
| Loans and receivables | - | - | - | 5,582,057 | - | - | 5,582,057 |
| - Loans to government | - | - | - | 353,339 | - | - | 353,339 |
| - Loans to banks | - | - | - | 155,953 | - | - | 155,953 |
| - Loans to financial organizations | - | - | - | 655,236 | - | - | 655,236 |
| - Loans to individuals | - | - | - | 1,858,175 | - | - | 1,858,175 |
| *Granted overdrafts* | - | - | - | *167,533* | - | - | *167,533* |
| *Loans for houses and flats* | - | - | - | *1,129,302* | - | - | *1,129,302* |
| *Consumer loans* | - | - | - | *503,147* | - | - | *503,147* |
| *Other loans* | - | - | - | *58,193* | - | - | *58,193* |
| - Loans to other customers | - | - | - | 2,559,354 | - | - | 2,559,354 |
| *Loans to large corporate customers* | - | - | - | *1,617,610* | - | - | *1,617,610* |
| *Loans to small and medium size enterprises* | - | - | - | *941,744* | - | - | *941,744* |
| Other financial assets | - | - | - | 41,337 | - | - | 41,337 |
| **TOTAL FINANCIAL ASSETS** | **104,779** | **3,801** | **1,155,412** | **6,921,471** | **864,259** | **5,426** | **9,055,148** |

in EUR thousand

| 31.12.2014 | NLB Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Trading assets | Financial assets designated at fair value thorugh profit or loss | Available-for-sale financial assets | Loans and receivables | Financial leases | Held-to-maturity financial assets | Derivatives for hedge accounting | Total |
| Cash and obligatory reserves with central bank | - | - | - | 1,127,527 | - | - | - | 1,127,527 |
| Securities | 98,162 | 6,510 | 1,672,952 | 706,810 | - | 711,648 | - | 3,196,082 |
| - Bonds | 57,876 | 885 | 1,317,574 | 706,785 | - | 691,765 | - | 2,774,885 |
| - Shares | 22 | - | 32,861 | - | - | - | - | 32,883 |
| - Commercial bills | - | - | 78,973 | - | - | - | - | 78,973 |
| - Cash certificates | - | - | 35,521 | - | - | - | - | 35,521 |
| - Treasury bills | 40,264 | - | 208,023 | - | - | 19,883 | - | 268,170 |
| - Private equity fund | - | 4,702 | - | - | - | - | - | 4,702 |
| - Reverse sell and repurchase agreements | - | - | - | 25 | - | - | - | 25 |
| - Other investments | - | 923 | - | - | - | - | - | 923 |
| Derivatives | 40,056 | - | - | - | - | - | 2,966 | 43,022 |
| Loans and receivables | - | - | - | 6,778,039 | 201,608 | - | - | 6,979,647 |
| - Loans to government | - | - | - | 500,069 | 15,246 | - | - | 515,315 |
| - Loans to banks | - | - | - | 271,340 | - | - | - | 271,340 |
| - Loans to financial organizations | - | - | - | 153,804 | 328 | - | - | 154,132 |
| - Loans to individuals | - | - | - | 2,734,012 | 69,290 | - | - | 2,803,302 |
| *Granted overdrafts* | - | - | - | *192,738* | - | - | - | *192,738* |
| *Loans for houses and flats* | - | - | - | *1,442,022* | - | - | - | *1,442,022* |
| *Consumer loans* | - | - | - | *910,752* | - | - | - | *910,752* |
| *Other loans* | - | - | - | *188,500* | *69,290* | - | - | *257,790* |
| - Loans to other customers | - | - | - | 3,118,814 | 116,744 | - | - | 3,235,558 |
| *Loans to large corporate customers* | - | - | - | *1,780,232* | *39,106* | - | - | *1,819,338* |
| *Loans to small and medium size enterprises* | - | - | - | *1,338,582* | *77,638* | - | - | *1,416,220* |
| Other financial assets | - | - | - | 71,769 | - | - | - | 71,769 |
| **TOTAL FINANCIAL ASSETS** | **138,218** | **6,510** | **1,672,952** | **8,684,145** | **201,608** | **711,648** | **2,966** | **11,418,047** |

in EUR thousand

| 31.12.2013 | NLB Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Trading assets | Financial assets designated at fair value thorugh profit or loss | Available-for-sale financial assets | Loans and receivables | Financial leases | Held-to-maturity financial assets | Derivatives for hedge accounting | Total |
| Cash and obligatory reserves with central bank | - | - | - | 1,250,600 | - | - | - | 1,250,600 |
| Securities | 72,347 | 6,615 | 1,675,117 | 707,432 | - | 864,259 | - | 3,325,770 |
| - Bonds | 17,544 | 895 | 1,212,950 | 702,791 | - | 728,308 | - | 2,662,488 |
| - Shares | 16,985 | - | 77,769 | - | - | - | - | 94,754 |
| - Cash certificates | - | - | 81,374 | - | - | - | - | 81,374 |
| - Treasury bills | 37,818 | - | 303,024 | - | - | 135,951 | - | 476,793 |
| - Private equity fund | - | 3,801 | - | - | - | - | - | 3,801 |
| - Reverse sell and repurchase agreements | - | - | - | 4,641 | - | - | - | 4,641 |
| - Other investments | - | 1,919 | - | - | - | - | - | 1,919 |
| Derivatives | 31,988 | - | - | - | - | - | 5,426 | 37,414 |
| Loans and receivables | - | - | - | 7,021,339 | 240,040 | - | - | 7,261,379 |
| - Loans to government | - | - | - | 462,545 | 16,875 | - | - | 479,420 |
| - Loans to banks | - | - | - | 219,974 | - | - | - | 219,974 |
| - Loans to financial organizations | - | - | - | 169,027 | 394 | - | - | 169,421 |
| - Loans to individuals | - | - | - | 2,646,825 | 69,257 | - | - | 2,716,082 |
| *Granted overdrafts* | - | - | - | *199,647* | - | - | - | *199,647* |
| *Loans for houses and flats* | - | - | - | *1,414,648* | - | - | - | *1,414,648* |
| *Consumer loans* | - | - | - | *892,455* | - | - | - | *892,455* |
| *Other loans* | - | - | - | *140,075* | *69,257* | - | - | *209,332* |
| - Loans to other customers | - | - | - | 3,522,968 | 153,514 | - | - | 3,676,482 |
| *Loans to large corporate customers* | - | - | - | *1,934,386* | *69,372* | - | - | *2,003,758* |
| *Loans to small and medium size enterprises* | - | - | - | *1,588,582* | *84,142* | - | - | *1,672,724* |
| Other financial assets | - | - | - | 63,919 | - | - | - | 63,919 |
| **TOTAL FINANCIAL ASSETS** | **104,335** | **6,615** | **1,675,117** | **9,043,290** | **240,040** | **864,259** | **5,426** | **11,939,082** |

As at 31 December 2014 and 31 December 2013, all of the NLB Group's financial liabilities, except for derivatives designated as hedging instruments, trading liabilities and financial liabilities designated at fair value through profit or loss, were carried at amortised cost.

## 7.2. Market risk management

Market risk is the risk that the market or fair value of financial instruments could fluctuate due to changes in specific market parameters, such as exchange rates, interest rates and securities prices. The conclusion of transactions in derivative financial instruments at NLB d.d. is limited primarily to servicing customers and hedging NLB d.d.'s own positions. Pursuant to the provisions of the Strategy for Trading in Financial Instruments at the NLB Group, trading activities in other NLB Group entities are very limited. The NLB Group's exposure to market risk is relatively low and chiefly derives from structural imbalances or arises as a result of credit risk.

Market risks include liquidity risk which is defined as funding liquidity risk and market liquidity risk. With regard to structural liquidity, the 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 or on the interbank market. In the current situation, the 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. The NLB Group regularly performs stress tests with the aim of testing the liquidity stability and availability of liquidity reserves in various stress situations. In addition, special attention is given to the new liquidity regulations (CRR/CRD), along with monitoring of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), and the fulfilment of the prescribed values of the aforementioned ratios.

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 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 NLB Group entities must monitor and manage exposure to market risks and report to NLB d.d. accordingly. The exposure of an individual NLB Group entity is regularly monitored and reported to the Assets and Liabilities Committee of the NLB Group (NLB Group ALCO).

### 7.2.1. Value-at-Risk methodology

The NLB's exposure to currency and other market risks in the trading book (interest rate risk and the changing securities prices) is monitored using the "Value-at-Risk" (VAR) methodology.

Regarding interest rate risk in the banking book, sensitivity analysis of net interest income is performed regularly. NLB d.d. also monitors the impact of a change in the interest rate on the economic value of bank assets, liabilities and off-balance sheet items on the basis of the EVE methodology (BPV). For equity securities in the banking book, exposure to risks is measured using a VAR calculation and sensitivity analysis.

### a) Currency risk

The NLB d.d. uses an internal "Conditional Value-at-Risk" (CVAR) model to calculate currency risk arising from open positions. The calculation of the CVAR value is adjusted to the Basel standards (99% confidence interval, monitored period of 300 business days, 10-day holding position period), and is based on the historical simulation method. CVAR is calculated for currency risk for the whole open NLB d.d. position (e.g. the position of the trading and banking book together) as the NLB's total open position is managed by the Treasury Department. NLB d.d. is following the goal of low exposure to currency risks.

in EUR thousand

| NLB d.d. | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| CVAR | Average | Maximum | Minimum | Average | Maximum | Minimum |
| Currency risk (trading book and banking book) | 122 | 2,412 | 39 | 222 | 1,876 | 68 |

The management of the currency risk in the NLB Group is decentralized. Each member introduce own Currency risk policy which includes also a limit system and it is in line with the local regulatory requirements as well as with parent's bank guidelines and standards. Policies are confirmed at local committees. NLB d.d. monitors the NLB Group currency risk exposure on monthly basis. Established Risk Management Standards of the NLB Group represents the guidance, that must be adopted by the NLB Group members, comprising policies, methodologies, organisational structure, procedures and reporting. The methodology for measuring currency risk at the NLB Group level is based on the net open foreign exchange position principle (note 7.2.2.) and the monitoring of the nominal limits (for the total open position by currency) relatively to the size of the capital of NLB Group members.

### b) Other market risks in the trading book

The 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 the Basel standards (99% confidence interval, monitored period of 250 business days, 10-day holding position period).

In 2014, interest rate risks in the trading book amounted to an average of EUR 396 thousand (2013: EUR 356 thousand) and remained on a relatively similar level compared to the previous year. At the end of 2014, the market value of the debt securities portfolio amounted to EUR 97.3 million (2013: EUR 55.5 million).

The price risk (equity portfolio) in the trading book decreased due to the disposal of securities and is there for reflected in the indicator "minimum VAR". The average VAR value was EUR 365 thousand (2013: EUR 1,845 thousand).

in EUR thousand

| NLB d.d. and NLB Group | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| VaR | Average | Maximum | Minimum | Average | Maximum | Minimum |
| Interest rate risk in trading book | 396 | 704 | 177 | 356 | 632 | 152 |
| Equity risk in trading book | 365 | 537 | 6 | 1,845 | 2,398 | 168 |

The average, maximum and minimum values in the upper table are calculated on the basis of daily VAR calculations, which are based on daily open positions and movements in market data during the past monitored period (300 or 250 working days). The "average" value represents the arithmetic mean of daily VAR values in 2014, while the "maximum" and "minimum" values represent the highest and lowest values of daily VAR calculations in 2014, respectively.

## c) Interest rate risk in the banking book

Interest rate risk is the risk of a loss arising from interest rate movements. Interest rate changes have significant effect on the Bank's income and expenses as well as on the economic value of interest-rate-sensitive items. Exposure of the NLB Group to interest rate risks is therefore monitored and managed based on the methodology of interest gaps and duration. The BPV method is a measure of the sensitivity of financial instruments to market interest rates. Based on the above methodologies the sensitivity of interest income is also calculated as a consequence of a parallel shift in the yield curve.

The monitoring of exposures arising from interest-rate risks and their management at the NLB Group level is decentralised. Exposure to interest risks is monitored at least monthly within the ALCO of the NLB Group, namely separately for NLB d.d. and other NLB Group members. The reports include an analysis of net interest income sensitivity, stress scenarios and fulfilment of limits.

The analysis of **interest income sensitivity** assumes a move in interest rates by 50 basis points in the short term. It is based on the assumption that the positions remain unchanged, while the yield curve shift is parallel. The assessment of the impact of a change in interest rates as follows:

in EUR thousand

| 2014 | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Average | Minimum | Maximum | Average | Minimum | Maximum |
| EUR: Interest income sensitivity | 1,461 | 339 | 2,288 | 1,659 | 390 | 2,666 |
| USD: Interest income sensitivity | 50 | 26 | 85 | 55 | 24 | 94 |
| CHF: Interest income sensitivity | 22 | 117 | 130 | 299 | 15 | 563 |

The values in the table were calculated based on monthly calculations of short-term interest gaps where the applied parallel shift of the yield curve by 50 bps represents a moderate and probable scenario for the Bank. "Average value" is the arithmetic mean of the monthly calculations of the values, whereas "high value" and "low value" are the minimum and maximum values calculated in the abovementioned period.

The values showing sensitivity of interest income in 2014 were quite stable. The effects are small mainly because of the fairly closed positions. In 2014 the methodological approach was redesigned which is why a direct comparison with the previous year is not possible. The new methodology includes in the calculation the entire interest-sensitive balance sheet with the remaining maturity or repricing date within one year, whereas the previous one only included interest-sensitive items related to the floating interest rate with the next repricing date within three months.

The **BPV (Basis Point Value) method** (is a measure of economic value sensitivity of financial instruments to market interest rates. The BPV method is used to assess the change of the value of a position in case market interest rates change by +/- 200 basis points. In this method, a parallel shift of the yield curve is assumed. The impact of a change in interest rates of 200 basis points on the economic value of the banking book position is as follows:

in EUR thousand

| NLB d.d. | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| BPV | Avarage (assesment) | Minimum (assesment) | Maksimum (assesment) | Avarage (assesment) | Minimum (assesment) | Maksimum (assesment) |
| Interest risk in banking book - BPV | 107,980 | 100,414 | 119,347 | 71,731 | 51,892 | 123,883 |
| Interest risk in banking book - BPV as % of banks capital | 10.48 | 9.62 | 12.99 | 7.03 | 5.74 | 13.69 |

| NLB Group | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| BPV | Avarage (assesment) | Minimum (assesment) | Maksimum (assesment) | Avarage (assesment) | Minimum (assesment) | Maksimum (assesment) |
| Interest risk in banking book - BPV | 129,584 | 121,058 | 151,731 | 95,494 | 74,941 | 142,324 |
| Interest risk in banking book - BPV as % of banks capital | 10.93 | 10.29 | 12.45 | 6.76 | 5.77 | 10.88 |

The values in the table have been calculated on the basis of weekly calculations of interest rate gaps, where the applied parallel shift of the yield curve is by 200 basis points. 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 NLB Group members monitor their exposure to interest rate risks which are mainly a consequence of structural movements and macroeconomic conditions in accordance with the risk management guidelines in the NLB Group. Exposure to interest rate risks primarily derives from NLB d.d. portfolio of first-class debt securities (ECB eligible), which represent a source of liquidity. The exposure arising from classic loan-deposit transactions was relatively low owing to the active management of these positions.

### d) Risk of changes in prices in the portfolio of equity securities in the banking book

In terms of equity security investments, NLB d.d. has adopted policies that were approved by the Management Board and the Supervisory Board. The policies define the permitted investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. In addition to a standardised methodology, the NLB d.d. also uses an internal model, which has been adapted to the requirements of the Basel standards, for monitoring and measuring the risks related to the equity portfolio.

The value of the equities portfolio in the banking book of NLB d.d. at the end of 2014 amounted to EUR 34.5 million (2013: EUR 79.1 million), of which realised collateral represented EUR 28.1 million (2013: EUR 67.7 million), the long-term portfolio as available-for-sale financial assets represented EUR 1.7 million (2013: EUR 7.6 million) and in the amount of EUR 4.7 million of financial assets designated at fair value through profit or loss (2013: EUR 3.8 million). The value of portfolio has decreased due the sale of equity securities, which is in line with the strategic guidelines in this area.

The value of VAR for the equities portfolio in the banking book at the end of 2014 amounted to EUR 2.5 million (2013: EUR 8.7 million). Assuming a fall in stock market indices or individual securities prices of 15% (2013: 15%), the value of the portfolio would decrease by EUR 4.5 million (2013: EUR 11.3 million).

Guidelines for the effective management of risks are defined by the NLB Group’s financial instruments trading strategy. Subsidiaries are not permitted to trade with equity securities, only brokerage services are provided. The majority of the equity securities portfolio in the banking book derives from the NLB’s position, while smaller but not material positions are also disclosed by certain NLB Group entities.

The value of equity portfolio in the banking book for NLB Group equalled EUR 38.5 million at the end of year 2014 (2013: EUR 83.4 million), of which EUR 28.1 million (2013: EUR 67.7 million) was received as collateral, while EUR 4.8 million was recorded as available-for-sale (2013: EUR 10.1 million) and EUR 5.6 million was classified as financial instruments at fair value through profit or loss (2013: EUR 5.7 million).

## 7.2.2. Currency Risk (FX)

The NLB Group manages currency risks in accordance with the currency risk management policy adopted by NLB d.d.’s Assets and Liabilities Committee (ALCO). NLB Group members manage currency risk decentralized. Each member introduce own Currency risk policy which include also a limit system and is in line with local regulatory requirements as well as with parent’s bank guidelines and standards. Policies are confirmed at local committees. NLB d.d. monitor and manage the NLB Group currency risk exposure on monthly basis.

The positions of all currencies in the statement of financial position of NLB d.d., for which daily limit is set, are monitored daily. Exposure to currency risks is managed by the Assets and Liabilities Management Department on the basis of the report obtained from the Risk Management Department. The Assets and Liabilities Management Department manages FX position on currency level, so that they are always within the limits.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of NLB d.d.’s Assets and Liabilities Committee.

The NLB Group had an unintended economically open position in CHF as at 31 December 2014 in amount of EUR 89 million due to an event related to the capital needs, initiated at the level of the Swiss based non-core subsidiary. In the beginning of the 2015, the FX rate unexpectedly significantly appreciated (cca 15%), which resulted in the recognition of approximately EUR 13 million negative effects. The estimated loss represents less than 1% of the consolidated equity of the NLB Group. Upon the identification the NLB Group immediately closed the open position.

## The amount of financial instruments denominated in euros and in foreign currency

31.12.2014 in EUR thousand

| NLB d.d. | EUR | USD | CHF | Other | Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Cash, cash balances at central banks and other demand deposits at banks | 318,696 | 63,220 | 11,319 | 41,203 | 434,438 |
| Trading assets | 137,894 | 892 | - | 22 | 138,808 |
| Financial assets designated at fair value through profit or loss | 4,702 | - | - | - | 4,702 |
| Available-for-sale financial assets | 1,174,466 | 8,248 | - | 34 | 1,182,748 |
| Derivatives - hedge accounting | 2,966 | - | - | - | 2,966 |
| Loans and advances | | | | | |
| - debt securities | 706,785 | - | - | - | 706,785 |
| - loans and advances to banks | 114,127 | 35,897 | 1,348 | 7,928 | 159,300 |
| - loans and advances to customers | 4,700,754 | 29,748 | 245,580 | 16,958 | 4,993,040 |
| - other financial assets | 47,731 | 54 | 12 | 39 | 47,836 |
| Held-to-maturity financial assets | 711,648 | - | - | - | 711,648 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 912 | - | - | - | 912 |
| **TOTAL FINANCIAL ASSETS** | **7,920,681** | **138,059** | **258,259** | **66,184** | **8,383,183** |
| **FINANCIAL LIABILITIES** | | | | | |
| Trading liabilities | 43,764 | - | - | - | 43,764 |
| Financial liabilities designated at fair value through profit or loss | 4,701 | - | - | - | 4,701 |
| Derivatives - hedge accounting | 43,985 | - | - | - | 43,985 |
| Financial liabilities measured at amortised cost | | | | | |
| - deposits from banks and central banks | 50,188 | 14,748 | 19,350 | 6,829 | 91,115 |
| - borrowings from banks and central banks | 585,352 | 38,057 | 20,169 | - | 643,578 |
| - due to customers | 6,156,103 | 79,376 | 34,701 | 24,745 | 6,294,925 |
| - borrowings from other customers | 33,511 | - | - | - | 33,511 |
| - debt securities in issue | 359,853 | - | - | - | 359,853 |
| - other financial liabilities | 42,728 | 440 | 200 | 2,855 | 46,223 |
| **TOTAL FINANCIAL LIABILITIES** | **7,320,185** | **132,621** | **74,420** | **34,429** | **7,561,655** |
| **Net on-balance sheet financial position** | **600,496** | **5,438** | **183,839** | **31,755** | **821,528** |
| Derivative financial instruments | 195,043 | 1,173 | (184,391) | (20,717) | (8,892) |
| **Net financial position** | **795,539** | **6,611** | **(552)** | **11,038** | **812,636** |

31.12.2013

| | EUR | USD | CHF | Other | Total |
|---|---|---|---|---|---|
| **TOTAL FINANCIAL ASSETS** | **8,653,081** | **93,753** | **234,999** | **73,845** | **9,055,678** |
| **TOTAL FINANCIAL LIABILITIES** | **8,006,312** | **140,862** | **140,942** | **32,753** | **8,320,869** |
| **Net on-balance sheet financial position** | **646,769** | **(47,109)** | **94,057** | **41,092** | **734,809** |
| Derivative financial instruments | 87,746 | 43,836 | (97,042) | (37,270) | (2,730) |
| **Net financial position** | **734,515** | **(3,273)** | **(2,985)** | **3,822** | **732,079** |

| 31.12.2014 | | | | | in EUR thousand |
|---|---|---|---|---|---|
| **NLB Group** | EUR | USD | CHF | Other | Total |
| **FINANCIAL ASSETS** | | | | | |
| Cash, cash balances at central banks and other demand deposits at banks | 709,295 | 78,447 | 41,092 | 298,693 | 1,127,527 |
| Trading assets | 137,298 | 892 | 6 | 22 | 138,218 |
| Financial assets designated at fair value through profit or loss | 6,510 | - | - | - | 6,510 |
| Available-for-sale financial assets | 1,452,120 | 10,052 | - | 210,780 | 1,672,952 |
| Derivatives - hedge accounting | 2,966 | - | - | - | 2,966 |
| Loans and advances | | | | | |
| - debt securities | 706,785 | - | - | - | 706,785 |
| - loans and advances to banks | 185,139 | 64,717 | 5,383 | 16,101 | 271,340 |
| - loans and advances to customers | 5,929,062 | 31,024 | 139,168 | 609,078 | 6,708,332 |
| - other financial assets | 54,119 | 109 | 46 | 17,495 | 71,769 |
| Held-to-maturity financial assets | 711,648 | - | - | - | 711,648 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 912 | - | - | - | 912 |
| **TOTAL FINANCIAL ASSETS** | **9,895,854** | **185,241** | **185,695** | **1,152,169** | **11,418,959** |
| | | | | | |
| **FINANCIAL LIABILITIES** | | | | | |
| Trading liabilities | 43,758 | - | - | - | 43,758 |
| Financial liabilities designated at fair value through profit or loss | 4,701 | - | - | - | 4,701 |
| Derivatives - hedge accounting | 43,985 | - | - | - | 43,985 |
| Financial liabilities measured at amortised cost | | | | | |
| - deposits from banks and central banks | 34,349 | 7,546 | 13,350 | 7,089 | 62,334 |
| - borrowings from banks and central banks | 655,724 | 38,057 | 20,941 | - | 714,722 |
| - due to customers | 7,826,528 | 134,349 | 54,102 | 928,853 | 8,943,832 |
| - borrowings from other customers | 134,379 | - | - | 2,281 | 136,660 |
| - debt securities in issue | 359,853 | - | - | - | 359,853 |
| - subordinated liabilities | 17,328 | - | - | - | 17,328 |
| - other financial liabilities | 59,609 | 885 | 1,527 | 9,865 | 71,886 |
| **TOTAL FINANCIAL LIABILITIES** | **9,180,214** | **180,837** | **89,920** | **948,088** | **10,399,059** |
| | | | | | |
| **Net on-balance sheet financial position** | **715,640** | **4,404** | **95,775** | **204,081** | **1,019,900** |
| Derivative financial instruments | 194,944 | 1,285 | (184,840) | (20,272) | (8,883) |
| **Net financial position** | **910,584** | **5,689** | **(89,065)** | **183,809** | **1,011,017** |
| | | | | | |
| 31.12.2013 | | | | | |
| **TOTAL FINANCIAL ASSETS** | **10,536,966** | **130,314** | **234,344** | **1,037,988** | **11,939,612** |
| **TOTAL FINANCIAL LIABILITIES** | **9,898,849** | **186,992** | **158,681** | **850,309** | **11,094,831** |
| | | | | | |
| **Net on-balance sheet financial position** | **638,117** | **(56,678)** | **75,663** | **187,679** | **844,781** |
| Derivative financial instruments | 84,841 | 46,877 | (97,515) | (36,937) | (2,734) |
| **Net financial position** | **722,958** | **(9,801)** | **(21,852)** | **150,742** | **842,047** |

## Sensitivity analysis for currency risk

in EUR thousand

| 2014 | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | Effects on income statement | Effects on other comprehensive income | Effects on income statement | Effects on other comprehensive income |
| Appreciation of | | | | |
| USD | 439 | 13 | 349 | 13 |
| CHF | (11) | - | (29) | (1,980) |
| CZK | 7 | 1 | 7 | (114) |
| RSD | 13 | - | 13 | 1,987 |
| MKD | (1) | - | (1) | 407 |
| Other | 173 | - | 173 | 156 |
| **Effects on comprehensive income** | **620** | **14** | **512** | **469** |
| Depreciation of | | | | |
| USD | (388) | (12) | (308) | (12) |
| CHF | 11 | - | 27 | 1,903 |
| CZK | (7) | (1) | (7) | 109 |
| RSD | (12) | - | (12) | (1,869) |
| MKD | (1) | - | (1) | (400) |
| Other | (146) | - | (146) | (153) |
| **Effects on comprehensive income** | **(543)** | **(13)** | **(447)** | **(422)** |
| **TOTAL** | **77** | **1** | **65** | **47** |

in EUR thousand

| 2013 | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | Effects on income statement | Effects on other comprehensive income | Effects on income statement | Effects on other comprehensive income |
| Appreciation of | | | | |
| USD | (261) | 11 | (1,080) | 11 |
| CHF | (137) | - | (447) | (739) |
| CZK | (552) | - | (552) | (143) |
| RSD | 25 | - | 25 | 1,918 |
| MKD | (1) | - | (1) | 421 |
| Other | 120 | - | 120 | 123 |
| **Effects on comprehensive income** | **(806)** | **11** | **(1,935)** | **1,591** |
| Depreciation of | | | | |
| USD | 225 | (10) | 931 | (10) |
| CHF | 126 | - | 409 | 677 |
| CZK | 483 | - | 483 | 125 |
| RSD | (23) | - | (23) | (1,791) |
| MKD | (1) | - | (1) | (414) |
| Other | (420) | - | (420) | (119) |
| **Effects on comprehensive income** | **390** | **(10)** | **1,379** | **(1,532)** |
| **TOTAL** | **(416)** | **1** | **(556)** | **59** |

| **NLB d.d. and NLB Group** | | |
|---|---|---|
| **Scenarios** | 31.12.2014 | 31.12.2013 |
| USD | +/-6% | +/-7% |
| CHF | +/-2% | +/-4% |
| CZK | +/-2% | +/-7% |
| RSD | +/-3% | +/-3% |
| MKD | +/-0,6% | +/-0,6% |
| JPY | +/-7% | +/-13% |
| AUD | +/-8% | +/-10% |
| HUF | +/-7% | +/-8% |
| HRK | +/-1% | +/-2% |

### 7.2.3. Managing interest rate risk

The management of interest rate risks in NLB d.d. banking book is separated from the measurement and monitoring of those risks. In the past, NLB d.d. implemented an interest rate risk management policy that reflects a conservative strategy for assuming interest rate risks and is based on general Basel risk management standards.

NLB d.d. manages interest rate risk in conjunction with credit, currency foreign exchange and liquidity risks, as there is a close correlation between those risks that can have a significant impact on the stability of the interest rate margin. NLB d.d. also stabilises its interest rate margin through an appropriate pricing policy and its fund transfer pricing policy.

The management of interest rate risk arising from banking book transactions is facilitated by managing the interest rate maturity of all on- and off-balance sheet items in individual maturity buckets. It takes into account the positions in each currency, adjusted to credit risk. The maturity calculation model for interest-insensitive liability items and interest-sensitive items without maturity (e.g. available capital and stable sight deposits) was approved by the national regulator. An important part of managing interest rate risk is the securities portfolio of the banking book, which is subject to strict internal rules and policies. The primary purpose of the portfolio is to maintain adequate secondary liquidity reserves, while it also contributes to the stability of the interest rate margin.

Several analyses are performed in the management of interest rate risks (limited positions in individual maturity buckets, modified duration, BPV limits). The BPV (basis point value) method helps to estimate changes in the market value of a banking book position due to a parallel shift in the yield curve. The BPV is calculated for different segments of the banking book and for the banking book as a whole. NLB d.d. also prepares calculations of the impact of changes in interest rates on net interest income.

The basic tool for managing interest rate risk in the banking book is the management of items from NLB d.d.'s statement of financial position. The strategies that foresee appropriate adjustments to items from the statement of financial position are discussed and adopted at the executive level of NLB d.d. or within the scope of NLB d.d.'s Assets and Liabilities Committee. If the management of interest rate risk using items from the statement of financial position is not possible, NLB d.d. manages risk by using the following derivative financial instruments:
- interest rate swaps,
- overnight index swaps,
- cross currency swaps, and
- forward rate agreements.

The management of the NLB Group's interest rate exposure is not performed at the consolidated level. However, NLB d.d. monitors the risk positions of individual members of the NLB Group on regular basis in accordance with the Development Programme and Minimum Standards for Risk Management in the NLB Group. The aforementioned document comprises guidelines for uniform and effective interest rate risk management. Interest rate risk exposure is monitored on the basis of maturity gaps, BPV analyses and limits. Guidelines regarding the limitation and management of interest risks within individual NLB Group members are approved by the ALCO.

## 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 repricing or residual maturity.

31.12.2014 in EUR thousand

| NLB d.d. | 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 | 434,438 | 106,146 | 328,292 | 328,292 | - | - | - | - |
| Trading assets | 138,808 | 22 | 138,786 | 41,538 | 27,700 | 17,265 | 52,283 | - |
| Financial assets designated at fair value through profit or loss | 4,702 | 4,702 | - | - | - | - | - | - |
| Available-for-sale financial assets | 1,182,748 | 29,815 | 1,152,933 | 41,379 | 120,222 | 99,097 | 484,319 | 407,916 |
| Derivatives - hedge accounting | 2,966 | 2,966 | - | - | - | - | - | - |
| Loans and advances | | | | | | | | |
| - debt securities | 706,785 | - | 706,785 | - | - | 312,050 | 309,000 | 85,735 |
| - loans and advances to banks | 159,300 | 9 | 159,291 | 87,332 | 31,757 | 39,750 | 452 | - |
| - loans and advances to customers | 4,993,040 | 39,929 | 4,953,111 | 1,954,539 | 1,036,482 | 1,752,882 | 152,613 | 56,595 |
| - other financial assets | 47,836 | 47,836 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 711,648 | - | 711,648 | 67,924 | 52,010 | 110,380 | 245,155 | 236,179 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 912 | 912 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **8,383,183** | **232,337** | **8,150,846** | **2,521,004** | **1,268,171** | **2,331,424** | **1,243,822** | **786,425** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Trading liabilities | 43,764 | - | 43,764 | 43,764 | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | 4,701 | 4,701 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 43,985 | 43,985 | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 91,115 | - | 91,115 | 90,045 | 1,049 | 21 | - | - |
| - borrowings from banks and central banks | 643,578 | - | 643,578 | 49,780 | 229,313 | 229,582 | 132,979 | 1,924 |
| - due to customers | 6,294,925 | - | 6,294,925 | 4,043,882 | 784,496 | 1,176,350 | 277,230 | 12,967 |
| - borrowings from other customers | 33,511 | - | 33,511 | - | 20,181 | 10,012 | 3,318 | - |
| - debt securities in issue | 359,853 | - | 359,853 | - | - | 35,280 | 324,573 | - |
| - other financial liabilities | 46,223 | 46,223 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **7,561,655** | **94,909** | **7,466,746** | **4,227,471** | **1,035,039** | **1,451,245** | **738,100** | **14,891** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(1,706,467)** | **233,132** | **880,179** | **505,722** | **771,534** |

31.12.2013 in EUR thousand

| NLB d.d. | 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 | 590,645 | 97,864 | 492,781 | 492,781 | - | - | - | - |
| Trading assets | 104,779 | 16,985 | 87,794 | 33,218 | 16,321 | 30,641 | 7,614 | - |
| Financial assets designated at fair value through profit or loss | 3,801 | 3,801 | - | - | - | - | - | - |
| Available-for-sale financial assets | 1,155,412 | 75,322 | 1,080,090 | 30,481 | 41,339 | 204,068 | 484,244 | 319,958 |
| Derivatives - hedge accounting | 5,426 | 5,426 | - | - | - | - | - | - |
| Loans and advances | | | | | | | | |
| - debt securities | 702,791 | - | 702,791 | - | - | 4,326 | 618,500 | 79,965 |
| - loans and advances to banks | 160,569 | 9 | 160,560 | 25,324 | 53,419 | 81,004 | 813 | - |
| - loans and advances to customers | 5,426,129 | 33,786 | 5,392,343 | 2,173,623 | 1,238,458 | 1,769,461 | 167,689 | 43,112 |
| - other financial assets | 41,337 | 41,337 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 864,259 | - | 864,259 | 47,931 | 19,784 | 219,252 | 321,277 | 256,015 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 530 | 530 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **9,055,678** | **275,060** | **8,780,618** | **2,803,358** | **1,369,321** | **2,308,752** | **1,600,137** | **699,050** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Trading liabilities | 34,064 | - | 34,064 | 34,064 | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | 3,800 | 3,800 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 36,519 | 36,519 | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 74,266 | - | 74,266 | 70,223 | 1,151 | 2,892 | - | - |
| - borrowings from banks and central banks | 2,261,739 | - | 2,261,739 | 1,326,398 | 320,329 | 461,014 | 151,688 | 2,310 |
| - due to customers | 5,743,673 | - | 5,743,673 | 3,483,460 | 757,254 | 1,225,794 | 267,544 | 9,621 |
| - borrowings from other customers | 36,284 | - | 36,284 | 2 | 20,182 | 10,015 | 6,085 | - |
| - debt securities in issue | 68,782 | - | 68,782 | - | - | 1,036 | 67,746 | - |
| - other financial liabilities | 61,609 | 61,609 | - | - | - | - | - | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 133 | 133 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **8,320,869** | **102,061** | **8,218,808** | **4,914,147** | **1,098,916** | **1,700,751** | **493,063** | **11,931** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(2,110,789)** | **270,405** | **608,001** | **1,107,074** | **687,119** |

31.12.2014 in EUR thousand

| NLB Group | Total | Non interest bearing | Interest bearing | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and balances with banks and central banks | 1,127,527 | 432,339 | 695,188 | 695,188 | - | - | - | - |
| Trading assets | 138,218 | 22 | 138,196 | 40,943 | 27,701 | 17,269 | 52,283 | - |
| Financial assets designated at fair value through profit or loss | 6,510 | 4,702 | 1,808 | 1,605 | - | 203 | - | - |
| Available-for-sale financial assets | 1,672,952 | 32,861 | 1,640,091 | 118,593 | 260,941 | 263,392 | 581,838 | 415,327 |
| Derivatives - hedge accounting | 2,966 | 2,966 | - | - | - | - | - | - |
| Loans and advances | | | | | | | | |
| - debt securities | 706,785 | - | 706,785 | - | - | 312,050 | 309,000 | 85,735 |
| - loans and advances to banks | 271,340 | 9 | 271,331 | 141,469 | 51,103 | 75,581 | 3,178 | - |
| - loans and advances to customers | 6,708,332 | 67,757 | 6,640,575 | 2,433,303 | 1,164,690 | 2,377,440 | 531,644 | 133,498 |
| - other financial assets | 71,769 | 71,769 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 711,648 | - | 711,648 | 67,924 | 52,010 | 110,380 | 245,155 | 236,179 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 912 | 912 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **11,418,959** | **613,337** | **10,805,622** | **3,499,025** | **1,556,445** | **3,156,315** | **1,723,098** | **870,739** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Trading liabilities | 43,758 | - | 43,758 | 43,758 | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | 4,701 | 4,701 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 43,985 | 43,985 | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 62,334 | 1,143 | 61,191 | 59,133 | 1,049 | 1,009 | - | - |
| - borrowings from banks and central banks | 714,722 | - | 714,722 | 55,753 | 234,453 | 251,546 | 168,224 | 4,746 |
| - due to customers | 8,943,832 | 34,809 | 8,909,023 | 5,399,621 | 1,000,014 | 1,951,501 | 540,285 | 17,602 |
| - borrowings from other customers | 136,660 | - | 136,660 | 1,764 | 25,817 | 26,698 | 51,528 | 30,853 |
| - debt securities in issue | 359,853 | - | 359,853 | - | - | 35,280 | 324,573 | - |
| - subordinated liabilities | 17,328 | - | 17,328 | 216 | 11,958 | 5,154 | - | - |
| - other financial liabilities | 71,886 | 71,886 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **10,399,059** | **156,524** | **10,242,535** | **5,560,245** | **1,273,291** | **2,271,188** | **1,084,610** | **53,201** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(2,061,220)** | **283,154** | **885,127** | **638,488** | **817,538** |

31.12.2013 in EUR thousand

| NLB Group | Total | Non interest bearing | Interest bearing | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and balances with banks and central banks | 1,250,600 | 396,439 | 854,161 | 854,161 | - | - | - | - |
| Trading assets | 104,335 | 16,985 | 87,350 | 32,720 | 16,329 | 30,673 | 7,628 | - |
| Financial assets designated at fair value through profit or loss | 6,615 | 3,801 | 2,814 | 1,920 | - | 894 | - | - |
| Available-for-sale financial assets | 1,675,117 | 77,769 | 1,597,348 | 131,030 | 150,408 | 441,236 | 549,091 | 325,583 |
| Derivatives - hedge accounting | 5,426 | 5,426 | - | - | - | - | - | - |
| Loans and advances | | | | | | | | |
| - debt securities | 702,791 | - | 702,791 | - | - | 4,326 | 618,500 | 79,965 |
| - loans and advances to banks | 224,590 | 6,788 | 217,802 | 104,901 | 57,522 | 52,075 | 2,895 | 409 |
| - loans and advances to customers | 7,041,430 | 87,751 | 6,953,679 | 2,503,502 | 1,346,363 | 2,392,139 | 574,428 | 137,247 |
| - other financial assets | 63,919 | 63,919 | - | - | - | - | - | - |
| Held-to-maturity financial assets | 864,259 | - | 864,259 | 47,931 | 19,784 | 219,252 | 321,277 | 256,015 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 530 | 530 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **11,939,612** | **659,408** | **11,280,204** | **3,676,165** | **1,590,406** | **3,140,595** | **2,073,819** | **799,219** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Trading liabilities | 34,063 | - | 34,063 | 34,063 | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | 3,800 | 3,800 | - | - | - | - | - | - |
| Derivatives - hedge accounting | 36,519 | 36,519 | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 37,457 | 58 | 37,399 | 34,147 | 2,219 | 1,030 | 3 | - |
| - borrowings from banks and central banks | 2,386,208 | - | 2,386,208 | 1,338,616 | 331,581 | 509,241 | 198,157 | 8,613 |
| - due to customers | 8,257,077 | 32,874 | 8,224,203 | 4,763,230 | 1,036,675 | 1,926,708 | 481,409 | 16,181 |
| - borrowings from other customers | 162,309 | - | 162,309 | 10,367 | 29,169 | 28,725 | 58,638 | 35,410 |
| - debt securities in issue | 68,782 | - | 68,782 | - | - | 1,036 | 67,746 | - |
| - subordinated liabilities | 21,874 | - | 21,874 | 222 | 11,930 | 9,722 | - | - |
| - other financial liabilities | 86,609 | 86,609 | - | - | - | - | - | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 133 | 133 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **11,094,831** | **159,993** | **10,934,838** | **6,180,645** | **1,411,574** | **2,476,462** | **805,953** | **60,204** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(2,504,480)** | **178,832** | **664,133** | **1,267,866** | **739,015** |

## Sensitivity analysis for interest rate risk

in EUR thousand

| 31.12.2014 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Effects on income statement | | Effects on other comprehensive income | | Effects on income statement | | Effects on other comprehensive income | |
| | 1 % | -1 % | 1 % | -1 % | 1 % | -1 % | 1 % | -1 % |
| **Financial assets** | | | | | | | | |
| Loans | 43,355 | (43,355) | - | - | 55,724 | (55,724) | - | - |
| Securities | 342 | (342) | (34,606) | 34,606 | 452 | (452) | (39,390) | 39,390 |
| **TOTAL FINANCIAL ASSETS** | **43,697** | **(43,697)** | **(34,606)** | **34,606** | **56,176** | **(56,176)** | **(39,390)** | **39,390** |
| **Financial liabilities** | | | | | | | | |
| Borrowings, deposits, debt securities in issue | (13,258) | 13,258 | - | - | (25,071) | 25,071 | - | - |
| Other financial liabilities | (18) | 18 | - | - | (18) | 18 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(13,276)** | **13,276** | **-** | **-** | **(25,089)** | **25,089** | **-** | **-** |
| **Effects on comprehensive income** | **30,421** | **(30,421)** | **(34,606)** | **34,606** | **31,087** | **(31,087)** | **(39,390)** | **39,390** |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Effects on income statement | | Effects on other comprehensive income | | Effects on income statement | | Effects on other comprehensive income | |
| | 1 % | -1 % | 1 % | -1 % | 1 % | -1 % | 1 % | -1 % |
| **Financial assets** | | | | | | | | |
| Loans | 47,008 | (47,008) | - | - | 58,828 | (58,828) | - | - |
| Securities | 343 | (343) | (27,477) | 27,477 | 1,316 | (1,316) | (31,414) | 31,414 |
| **TOTAL FINANCIAL ASSETS** | **47,351** | **(47,351)** | **(27,477)** | **27,477** | **60,144** | **(60,144)** | **(31,414)** | **31,414** |
| **Financial liabilities** | | | | | | | | |
| Borrowings, deposits, debt securities in issue | (27,955) | 27,955 | - | - | (43,826) | 43,826 | - | - |
| Other financial liabilities | (39) | 39 | - | - | (64) | 64 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(27,994)** | **27,994** | **-** | **-** | **(43,890)** | **43,890** | **-** | **-** |
| **Effects on comprehensive income** | **19,357** | **(19,357)** | **(27,477)** | **27,477** | **16,254** | **(16,254)** | **(31,414)** | **31,414** |

### 7.2.4. Liquidity risk management

Liquidity risk is monitored and managed in the NLB Group in accordance with the relevant policies and strategies, which set out rules and a hierarchy of responsibility. Standard liquidity risk monitoring and management guidelines were implemented by NLB Group companies in accordance with the NLB Group Liquidity Risk Management Guidelines. Liquidity risk management is decentralised, with each company ensuring its own liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. A standardised reporting system functions within the NLB Group and ensures adequate control over the provision of operational and structural liquidity at all NLB Group companies.

The objectives of monitoring and managing liquidity risk in the NLB Group are as follows:
- ensuring a sufficient level of liquid assets;
- minimising the costs of maintaining liquidity;
- optimising the balance of liquidity reserves;
- ensuring an appropriate level of liquidity for different situations and stress scenarios; and
- anticipating emergencies or crisis conditions, and implementing contingency plans in the event of extraordinary circumstances.

Liquidity is managed at three levels in the NLB Group: operational, structural and strategic.

### Operational level

Liquidity management at the operational level means managing liquidity for a period of several days or weeks, based on the planning and monitoring of cash flows. Liquidity management at the operational level in the NLB Group is decentralised, meaning each NLB Group company is responsible for its own liquidity position and carries out the following activities:
- planning and monitoring of cash flows;
- monitoring and complying with the liquidity regulations of the central bank;
- adopting business decisions; and
- creating and managing a portfolio of liquidity reserves.

As the parent bank, NLB d.d. regularly monitors and provides liquidity to its subsidiaries, if needed.

### Structural level

Liquidity management at the structural level means managing liquidity over a longer time period, and includes the following activities:
- defining structural liquidity ratios, and the regular calculation and monitoring thereof;
- defining target values and/or target trends of individual selected structural liquidity ratios;
- monitoring of trends in selected structural liquidity ratios;
- monitoring of liquidity gaps by individual time bucket;
- calculation of LCR and NSFR; and
- implementation of liquidity risk stress tests.

The objective of liquidity management at the structural level is to achieve a balance sheet structure that ensures the NLB Group's long-term liquidity based on the criteria of maturity matching, the forms and concentration of sources of funding, and the realisation and rating of investments.

### Strategic level

NLB Group companies perform the following activities in the context of liquidity management at the strategic level:
- preparing liquidity gaps;
- preparing dynamic projections of liquidity taking into account several cash-flow scenarios for NLB d.d.;
- monitoring of liquidity gaps by individual time buckets, and the preparation of analyses, proposals and measures for changes in the structure of the balance sheet that affect the Bank's liquidity position and liquidity risk;
- implementation of liquidity risk stress tests, and a definition of the necessary level of liquidity reserves on the basis thereof;
- defining and managing the liquidity reserves; and
- drafting proposals for establishing additional financial assets as collateral for sources of funding.

NLB d.d. prepares dynamic liquidity projections on a monthly basis and monitors the available liquidity reserves according to the expected cash flows as well as ensures supervision over the liquidity position of each NLB Group member.

The NLB Group performs liquidity stress tests to measure the liquidity risk, which warns of potential future cash outflows. Each NLB Group member should ensure it has sufficient liquidity reserves. In crisis conditions, the NLB Group also maintains a sufficient level of high-quality available liquidity reserves with which it can cover unexpected cash outflows in exceptional circumstances.

The NLB Group has 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 the NLB Group's liquidity and protects the commercial interests of clients and shareholders.

## a) Non-derivative cash flows

The tables below illustrate the cash flows from non-derivative financial instruments by residual maturities at the end of the year. The amounts disclosed in the table are the undiscounted contractual cash flows determined on the basis of spot rates at the end of the reporting period.

31.12.2014 in EUR thousand

| NLB d.d. | 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 designated at fair value through profit or loss | - | - | - | 4,701 | - | 4,701 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 90,046 | 1,049 | 21 | - | - | 91,116 |
| - borrowings from banks and central banks | 17,335 | 9,497 | 40,628 | 470,288 | 133,553 | 671,301 |
| - due to customers | 3,978,589 | 720,855 | 1,224,202 | 372,019 | 34,609 | 6,330,274 |
| - borrowings from other customers | - | 20,245 | 54 | 13,344 | - | 33,643 |
| - debt securities in issue | - | - | 41,805 | 342,820 | - | 384,625 |
| - other financial liabilities | 44,326 | 1,897 | - | - | - | 46,223 |
| Credit risk related commitments | 511,582 | 153,074 | 331,472 | 213,447 | 51,466 | 1,261,041 |
| Non-financial guarantees | 37,517 | 39,682 | 128,082 | 171,815 | 70,026 | 447,122 |
| **TOTAL** | **4,679,395** | **946,299** | **1,766,264** | **1,588,434** | **289,654** | **9,270,046** |
| **TOTAL FINANCIAL ASSETS** | **1,621,394** | **392,883** | **1,649,900** | **3,398,302** | **2,141,451** | **9,203,930** |

31.12.2013 in EUR thousand

| NLB d.d. | 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 designated at fair value through profit or loss | - | - | - | 3,800 | - | 3,800 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 69,723 | 1,652 | 2,898 | - | - | 74,273 |
| - borrowings from banks and central banks | 4,844 | 11,199 | 219,322 | 1,925,832 | 181,472 | 2,342,669 |
| - due to customers | 3,439,630 | 720,391 | 1,268,450 | 351,891 | 18,282 | 5,798,644 |
| - borrowings from other customers | 2 | 248 | 315 | 36,438 | - | 37,003 |
| - debt securities in issue | - | - | 2,791 | 71,662 | - | 74,453 |
| - other financial liabilities | 60,162 | 1,445 | 2 | - | - | 61,609 |
| Credit risk related commitments | 484,950 | 144,225 | 321,575 | 93,027 | 38,426 | 1,082,203 |
| Non-financial guarantees | 33,946 | 30,322 | 121,638 | 219,026 | 84,485 | 489,417 |
| **TOTAL** | **4,093,257** | **909,482** | **1,936,991** | **2,701,676** | **322,665** | **9,964,071** |
| **TOTAL FINANCIAL ASSETS** | **1,561,411** | **446,083** | **1,842,911** | **3,906,336** | **2,188,089** | **9,944,830** |

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to 1 month, it is necessary to take account of the fact that financial liabilities include total demand deposits, and that NLB d.d. may apply a stability weight of 60% to demand deposits when ensuring compliance with the central bank regulations concerning the calculation of the liquidity position. To ensure NLB d.d.'s and the NLB Group's liquidity, and based on its approach to risk, in previous years the 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.

31.12.2014 in EUR thousand

| 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 designated at fair value through profit or loss | - | - | - | 4,701 | - | 4,701 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 60,012 | 1,049 | 760 | 515 | - | 62,336 |
| - borrowings from banks and central banks | 21,169 | 12,346 | 59,660 | 516,876 | 136,403 | 746,454 |
| - due to customers | 5,348,792 | 947,453 | 1,870,864 | 835,170 | 40,332 | 9,042,611 |
| - borrowings from other customers | 1,794 | 26,109 | 16,874 | 62,922 | 31,003 | 138,702 |
| - debt securities in issue | - | - | 41,805 | 342,820 | - | 384,625 |
| - subordinated liabilities | - | 608 | 1,831 | 14,561 | 5,171 | 22,171 |
| - other financial liabilities | 61,161 | 2,160 | 8,526 | 39 | - | 71,886 |
| Credit risk related commitments | 635,117 | 182,998 | 428,054 | 214,288 | 58,565 | 1,519,022 |
| Non-financial guarantees | 41,807 | 48,543 | 153,675 | 189,086 | 70,998 | 504,109 |
| **TOTAL** | **6,169,852** | **1,221,266** | **2,582,049** | **2,180,978** | **342,472** | **12,496,617** |
| **TOTAL FINANCIAL ASSETS** | **2,814,853** | **693,187** | **2,224,296** | **4,419,803** | **2,584,695** | **12,736,834** |

31.12.2013 in EUR thousand

| 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 designated at fair value through profit or loss | - | - | - | 3,800 | - | 3,800 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 34,223 | 2,248 | 1,043 | - | - | 37,514 |
| - borrowings from banks and central banks | 21,452 | 18,907 | 273,977 | 1,984,685 | 187,896 | 2,486,917 |
| - due to customers | 4,687,945 | 967,326 | 1,949,629 | 755,925 | 39,469 | 8,400,294 |
| - borrowings from other customers | 1,993 | 8,789 | 28,546 | 90,935 | 35,553 | 165,816 |
| - debt securities in issue | - | - | 2,791 | 71,662 | - | 74,453 |
| - subordinated liabilities | 4 | 385 | 4,932 | 12,720 | 5,171 | 23,212 |
| - other financial liabilities | 76,738 | 1,487 | 7,677 | 707 | - | 86,609 |
| Credit risk related commitments | 591,593 | 176,080 | 428,590 | 142,792 | 46,212 | 1,385,267 |
| Non-financial guarantees | 38,394 | 44,610 | 147,032 | 235,345 | 83,563 | 548,944 |
| **TOTAL** | **5,452,342** | **1,219,832** | **2,844,217** | **3,298,571** | **397,864** | **13,212,826** |
| **TOTAL FINANCIAL ASSETS** | **2,728,670** | **688,422** | **2,369,013** | **4,826,510** | **2,611,378** | **13,223,993** |

Liabilities and credit related commitments are included in maturity buckets based on their residual contractual maturity.

## b) An analysis of the statement of financial position by residual maturity

31.12.2014 in EUR thousand

| NLB d.d. | 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 | 434,438 | - | - | - | - | 434,438 |
| Trading assets | 40,646 | 27,700 | 17,265 | 52,283 | 914 | 138,808 |
| Financial assets designated at fair value through profit or loss | - | - | - | - | 4,702 | 4,702 |
| Available-for-sale financial assets | 26,362 | 109,346 | 109,973 | 499,336 | 437,731 | 1,182,748 |
| Derivatives - hedge accounting | 2,966 | - | - | - | - | 2,966 |
| Loans and advances | | | | | | |
| - debt securities | - | - | 312,050 | 309,000 | 85,735 | 706,785 |
| - loans and advances to banks | 84,671 | 24,677 | 21,386 | 28,566 | - | 159,300 |
| - loans and advances to customers | 1,003,334 | 156,194 | 942,673 | 1,786,452 | 1,104,387 | 4,993,040 |
| - other financial assets | 34,378 | 104 | 1,588 | 11,766 | - | 47,836 |
| Held-to-maturity financial assets | 30,542 | 52,010 | 110,380 | 261,025 | 257,691 | 711,648 |
| Fair value changes of hedged in portfolio hedge of interest rate risk | - | 235 | - | - | 677 | 912 |
| Non-current assets classified as held for sale | - | - | 2,580 | - | - | 2,580 |
| Property and equipment | - | - | - | 11,336 | 85,994 | 97,330 |
| Investment property | - | - | - | 1,458 | - | 1,458 |
| Intangible assets | - | - | - | 9,609 | 24,134 | 33,743 |
| Investments in subsidiaries, associates and joint ventures | - | - | - | 10,492 | 342,220 | 352,712 |
| Deferred income tax assets | - | - | 3,335 | 3,403 | - | 6,738 |
| Other assets | 6,153 | - | 1,830 | - | - | 7,983 |
| **TOTAL ASSETS** | **1,663,490** | **370,266** | **1,523,060** | **2,984,726** | **2,344,185** | **8,885,727** |
| Trading liabilities | 43,764 | - | - | - | - | 43,764 |
| Financial liabilities designated at fair value through profit or loss | - | - | - | 4,701 | - | 4,701 |
| Derivatives - hedge accounting | 43,985 | - | - | - | - | 43,985 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 90,045 | 1,049 | 21 | - | - | 91,115 |
| - borrowings from banks and central banks | 17,304 | 9,209 | 36,149 | 455,309 | 125,607 | 643,578 |
| - due to customers | 3,977,136 | 714,178 | 1,207,071 | 363,320 | 33,220 | 6,294,925 |
| - borrowings from other customers | - | 20,181 | 12 | 13,318 | - | 33,511 |
| - debt securities in issue | - | - | 35,280 | 324,573 | - | 359,853 |
| - other financial liabilities | 44,326 | 1,897 | - | - | - | 46,223 |
| Provisions | 1,268 | - | 24,494 | 88,803 | - | 114,565 |
| Current income tax liabilities | - | - | 324 | - | - | 324 |
| Other liabilities | 3,474 | 14 | 90 | 685 | - | 4,263 |
| **TOTAL LIABILITIES** | **4,221,302** | **746,528** | **1,303,441** | **1,250,709** | **158,827** | **7,680,807** |
| Credit risk related commitments | 511,582 | 153,074 | 331,472 | 213,447 | 51,466 | 1,261,041 |
| Non-financial guarantees | 37,517 | 39,682 | 128,082 | 171,815 | 70,026 | 447,122 |
| **TOTAL LIABILITIES AND CREDIT RELATED COMMITMENTS** | **4,770,401** | **939,284** | **1,762,995** | **1,635,971** | **280,319** | **9,388,970** |

31.12.2013 in EUR thousand

| NLB d.d. | 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 | 590,645 | - | - | - | - | 590,645 |
| Trading assets | 32,432 | 16,321 | 31,427 | 7,614 | 16,985 | 104,779 |
| Financial assets designated at fair value through profit or loss | - | - | - | - | 3,801 | 3,801 |
| Available-for-sale financial assets | 11,132 | 30,679 | 205,385 | 512,932 | 395,284 | 1,155,412 |
| Derivatives - hedge accounting | 5,426 | - | - | - | - | 5,426 |
| Loans and advances | | | | | | |
| - debt securities | - | - | 2,700 | 619,699 | 80,392 | 702,791 |
| - loans and advances to banks | 10,388 | 45,001 | 72,119 | 33,061 | - | 160,569 |
| - loans and advances to customers | 889,478 | 304,760 | 1,175,622 | 1,904,966 | 1,151,303 | 5,426,129 |
| - other financial assets | 40,070 | 12 | 1,245 | 10 | - | 41,337 |
| Held-to-maturity financial assets | 10,728 | 19,784 | 219,252 | 337,002 | 277,493 | 864,259 |
| Fair value changes of hedged in portfolio hedge of interest rate risk | - | - | 140 | - | 390 | 530 |
| Non-current assets classified as held for sale | - | - | 2,327 | - | - | 2,327 |
| Property and equipment | - | - | - | 13,957 | 94,492 | 108,449 |
| Investment property | - | - | - | 1,458 | - | 1,458 |
| Intangible assets | - | - | - | 11,739 | 33,237 | 44,976 |
| Investments in subsidiaries, associates and joint ventures | - | - | - | 10,492 | 266,100 | 276,592 |
| Current income tax assets | - | - | 8 | - | - | 8 |
| Deferred income tax assets | - | - | 2,886 | 10,506 | - | 13,392 |
| Other assets | 2,639 | - | 1,902 | - | - | 4,541 |
| **TOTAL ASSETS** | **1,592,938** | **416,557** | **1,715,013** | **3,463,436** | **2,319,477** | **9,507,421** |
| Trading liabilities | 34,064 | - | - | - | - | 34,064 |
| Financial liabilities designated at fair value through profit or loss | - | - | - | 3,800 | - | 3,800 |
| Derivatives - hedge accounting | 36,519 | - | - | - | - | 36,519 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 69,723 | 1,649 | 2,894 | - | - | 74,266 |
| - borrowings from banks and central banks | 4,803 | 8,456 | 201,973 | 1,876,528 | 169,979 | 2,261,739 |
| - due to customers | 3,437,152 | 710,321 | 1,238,452 | 340,578 | 17,170 | 5,743,673 |
| - borrowings from other customers | 2 | 183 | 15 | 36,084 | - | 36,284 |
| - debt securities in issue | - | - | 1,036 | 67,746 | - | 68,782 |
| - other financial liabilities | 60,162 | 1,445 | 2 | - | - | 61,609 |
| Fair value changes of the hedged items in hedge of interest rate risk | - | - | - | - | 133 | 133 |
| Provisions | - | 1,270 | 31,285 | 54,525 | - | 87,080 |
| Other liabilities | 5,356 | 19 | 162 | 467 | - | 6,004 |
| **TOTAL LIABILITIES** | **3,647,781** | **723,343** | **1,475,819** | **2,379,728** | **187,282** | **8,413,953** |
| Credit risk related commitments | 484,950 | 144,225 | 321,575 | 93,027 | 38,426 | 1,082,203 |
| Non-financial guarantees | 33,946 | 30,322 | 121,638 | 219,026 | 84,485 | 489,417 |
| **TOTAL LIABILITIES AND CREDIT RELATED COMMITMENTS** | **4,166,677** | **897,890** | **1,919,032** | **2,691,781** | **310,193** | **9,985,573** |

31.12.2014 in EUR thousand

| NLB Group | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| Cash, cash balances at central banks and other demand deposits at banks | 1,127,527 | - | - | - | - | 1,127,527 |
| Trading assets | 40,051 | 27,701 | 17,269 | 52,283 | 914 | 138,218 |
| Financial assets designated at fair value through profit or loss | 1,605 | - | - | 203 | 4,702 | 6,510 |
| Available-for-sale financial assets | 90,057 | 252,039 | 274,600 | 607,839 | 448,417 | 1,672,952 |
| Derivatives - hedge accounting | 2,966 | - | - | - | - | 2,966 |
| Loans and advances | | | | | | |
| - debt securities | - | - | 312,050 | 309,000 | 85,735 | 706,785 |
| - loans and advances to banks | 141,620 | 52,475 | 71,714 | 5,531 | - | 271,340 |
| - loans and advances to customers | 1,281,199 | 261,573 | 1,210,891 | 2,509,796 | 1,444,873 | 6,708,332 |
| - other financial assets | 55,126 | 224 | 4,592 | 11,827 | - | 71,769 |
| Held-to-maturity financial assets | 30,542 | 52,010 | 110,380 | 261,025 | 257,691 | 711,648 |
| Fair value changes of hedged in portfolio hedge of interest rate risk | - | 235 | - | - | 677 | 912 |
| Non-current assets classified as held for sale | - | - | 5,643 | - | - | 5,643 |
| Property and equipment | - | - | - | 14,704 | 200,471 | 215,175 |
| Investment property | - | - | - | 17,950 | 23,522 | 41,472 |
| Intangible assets | - | - | - | 10,879 | 31,872 | 42,751 |
| Investments in associates and joint ventures | - | - | - | - | 37,525 | 37,525 |
| Current income tax assets | 746 | 2 | 1,150 | - | - | 1,898 |
| Deferred income tax assets | - | - | 3,354 | 2,593 | - | 5,947 |
| Other assets | 23,315 | 289 | 103,168 | 13,296 | 51 | 140,119 |
| **TOTAL ASSETS** | **2,794,754** | **646,548** | **2,114,811** | **3,816,926** | **2,536,450** | **11,909,489** |
| Trading liabilities | 43,758 | - | - | - | - | 43,758 |
| Financial liabilities designated at fair value through profit or loss | - | - | - | 4,701 | - | 4,701 |
| Derivatives - hedge accounting | 43,985 | - | - | - | - | 43,985 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 60,010 | 1,049 | 760 | 515 | - | 62,334 |
| - borrowings from banks and central banks | 21,039 | 11,656 | 54,162 | 499,436 | 128,429 | 714,722 |
| - due to customers | 5,342,910 | 933,650 | 1,829,681 | 799,294 | 38,297 | 8,943,832 |
| - borrowings from other customers | 1,721 | 25,819 | 16,340 | 61,926 | 30,854 | 136,660 |
| - debt securities in issue | - | - | 35,280 | 324,573 | - | 359,853 |
| - subordinated liabilities | - | 216 | 154 | 11,958 | 5,000 | 17,328 |
| - other financial liabilities | 61,161 | 2,160 | 8,526 | 39 | - | 71,886 |
| Provisions | 1,654 | 305 | 29,186 | 91,028 | 4,801 | 126,974 |
| Current income tax liabilities | - | 125 | 1,655 | - | - | 1,780 |
| Deferred income tax liabilities | - | - | 306 | 9 | - | 315 |
| Other liabilities | 8,977 | 239 | 2,148 | 702 | - | 12,066 |
| **TOTAL LIABILITIES** | **5,585,215** | **975,219** | **1,978,198** | **1,794,181** | **207,381** | **10,540,194** |
| Credit risk related commitments | 635,117 | 182,998 | 425,054 | 214,288 | 58,565 | 1,516,022 |
| Non-financial guarantees | 41,807 | 48,543 | 153,675 | 189,086 | 70,998 | 504,109 |
| **TOTAL LIABILITIES AND CREDIT RELATED COMMITMENTS** | **6,262,139** | **1,206,760** | **2,556,927** | **2,197,555** | **336,944** | **12,560,325** |

31.12.2013 in EUR thousand

| NLB Group | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| Cash, cash balances at central banks and other demand deposits at banks | 1,250,600 | - | - | - | - | 1,250,600 |
| Trading assets | 31,934 | 16,329 | 31,459 | 7,628 | 16,985 | 104,335 |
| Financial assets designated at fair value through profit or loss | 1,920 | - | 98 | 796 | 3,801 | 6,615 |
| Available-for-sale financial assets | 102,509 | 142,827 | 440,965 | 585,856 | 402,960 | 1,675,117 |
| Derivatives - hedge accounting | 5,426 | - | - | - | - | 5,426 |
| Loans and advances | | | | | | |
| - debt securities | - | - | 2,700 | 619,699 | 80,392 | 702,791 |
| - loans and advances to banks | 98,657 | 58,576 | 63,502 | 3,446 | 409 | 224,590 |
| - loans and advances to customers | 1,157,533 | 399,544 | 1,404,790 | 2,598,236 | 1,481,327 | 7,041,430 |
| - other financial assets | 61,085 | 49 | 1,907 | 560 | 318 | 63,919 |
| Held-to-maturity financial assets | 10,728 | 19,784 | 219,252 | 337,002 | 277,493 | 864,259 |
| Fair value changes of hedged in portfolio hedge of interest rate risk | - | - | 140 | - | 390 | 530 |
| Non-current assets classified as held for sale | - | - | 17,582 | - | - | 17,582 |
| Property and equipment | - | - | - | 59,705 | 178,873 | 238,578 |
| Investment property | - | - | - | 5,741 | 29,103 | 34,844 |
| Intangible assets | - | - | - | 13,929 | 40,798 | 54,727 |
| Investments in associates and joint ventures | - | - | - | - | 28,284 | 28,284 |
| Current income tax assets | 199 | 348 | 449 | 927 | - | 1,923 |
| Deferred income tax assets | - | - | 2,906 | 9,186 | - | 12,092 |
| Other assets | 76,305 | 1,877 | 79,888 | 4,337 | 85 | 162,492 |
| **TOTAL ASSETS** | **2,796,896** | **639,334** | **2,265,638** | **4,247,048** | **2,541,218** | **12,490,134** |
| Trading liabilities | 34,063 | - | - | - | - | 34,063 |
| Financial liabilities designated at fair value through profit or loss | - | - | - | 3,800 | - | 3,800 |
| Derivatives - hedge accounting | 36,519 | - | - | - | - | 36,519 |
| Financial liabilities measured at amortised cost | | | | | | |
| - deposits from banks and central banks | 34,208 | 2,217 | 1,032 | - | - | 37,457 |
| - borrowings from banks and central banks | 10,761 | 14,562 | 253,780 | 1,930,851 | 176,254 | 2,386,208 |
| - due to customers | 4,671,070 | 948,288 | 1,890,685 | 714,510 | 32,524 | 8,257,077 |
| - borrowings from other customers | 1,939 | 8,327 | 27,175 | 89,463 | 35,405 | 162,309 |
| - debt securities in issue | - | - | 1,036 | 67,746 | - | 68,782 |
| - subordinated liabilities | 4 | 329 | 4,623 | 11,918 | 5,000 | 21,874 |
| - other financial liabilities | 76,738 | 1,487 | 7,677 | 707 | - | 86,609 |
| Fair value changes of the hedged items in hedge of interest rate risk | - | - | - | - | 133 | 133 |
| Provisions | 3,316 | 2,271 | 35,633 | 62,533 | 5,170 | 108,923 |
| Current income tax liabilities | 7 | 15 | 94 | - | - | 116 |
| Deferred income tax liabilities | - | - | 97 | 273 | - | 370 |
| Other liabilities | 11,604 | 269 | 2,157 | 867 | - | 14,897 |
| **TOTAL LIABILITIES** | **4,880,229** | **977,765** | **2,223,989** | **2,882,668** | **254,486** | **11,219,137** |
| Credit risk related commitments | 591,593 | 176,080 | 428,590 | 142,792 | 46,212 | 1,385,267 |
| Non-financial guarantees | 38,394 | 44,610 | 147,032 | 235,345 | 83,563 | 548,944 |
| **TOTAL LIABILITIES AND CREDIT RELATED COMMITMENTS** | **5,510,216** | **1,198,455** | **2,799,611** | **3,260,805** | **384,261** | **13,153,348** |

## c) 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.

31.12.2014 in EUR thousand

| NLB d.d. | 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 | (101,702) | (107,069) | (81,194) | (547) | - | (290,512) |
| - Inflow | 101,739 | 107,118 | 81,211 | 547 | - | 290,615 |
| - Swaps | | | | | | |
| - Outflow | (48,508) | (27,318) | (44,583) | (6,633) | - | (127,042) |
| - Inflow | 48,464 | 27,328 | 44,626 | 6,640 | - | 127,058 |
| - Futures | | | | | | |
| - Outflow | - | (2,961) | - | - | - | (2,961) |
| - Inflow | - | 2,900 | - | - | - | 2,900 |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| - Interest rate swaps and cross-currency swaps | | | | | | |
| - Outflow | (1,516) | (22,749) | (14,939) | (150,869) | (42,206) | (232,279) |
| - Inflow | 492 | 21,601 | 12,899 | 131,515 | 26,966 | 193,473 |
| **TOTAL OUTFLOW** | **(151,726)** | **(160,097)** | **(140,716)** | **(158,049)** | **(42,206)** | **(652,794)** |
| **TOTAL INFLOW** | **150,695** | **158,947** | **138,736** | **138,702** | **26,966** | **614,046** |

31.12.2013 in EUR thousand

| NLB d.d. | 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 | (58,587) | (25,562) | (79,379) | (9,118) | - | (172,646) |
| - Inflow | 58,605 | 25,555 | 79,252 | 9,080 | - | 172,492 |
| - Swaps | | | | | | |
| - Outflow | (88,950) | (49,708) | (42,795) | - | - | (181,453) |
| - Inflow | 88,359 | 49,708 | 42,769 | - | - | 180,836 |
| - Futures | | | | | | |
| - Outflow | - | (6,348) | - | - | - | (6,348) |
| - Inflow | - | 6,342 | - | - | - | 6,342 |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| - Interest rate swaps and cross-currency swaps | | | | | | |
| - Outflow | (1,925) | (4,290) | (78,315) | (69,254) | (56,032) | (209,816) |
| - Inflow | 638 | 2,341 | 56,862 | 72,138 | 49,864 | 181,843 |
| - Caps and floors | | | | | | |
| - Outflow | (1) | (2) | (4) | - | - | (7) |
| - Inflow | 1 | 2 | 4 | - | - | 7 |
| **TOTAL OUTFLOW** | **(149,463)** | **(85,910)** | **(200,493)** | **(78,372)** | **(56,032)** | **(570,270)** |
| **TOTAL INFLOW** | **147,603** | **83,948** | **178,887** | **81,218** | **49,864** | **541,520** |

31.12.2014 in EUR thousand

| NLB Group | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| **FOREIGN EXCHANGE DERIVATIVES** | | | | | | |
| - Forwards | | | | | | |
| - Outflow | (101,298) | (107,069) | (81,194) | (547) | - | (290,108) |
| - Inflow | 101,338 | 107,118 | 81,211 | 547 | - | 290,214 |
| - Swaps | | | | | | |
| - Outflow | (53,452) | (30,282) | (44,583) | (6,633) | - | (134,950) |
| - Inflow | 53,415 | 30,292 | 44,626 | 6,640 | - | 134,973 |
| - Futures | | | | | | |
| - Outflow | - | (2,961) | - | - | - | (2,961) |
| - Inflow | - | 2,900 | - | - | - | 2,900 |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| - Interest rate swaps and cross-currency swaps | | | | | | |
| - Outflow | (1,515) | (22,749) | (14,939) | (150,854) | (42,146) | (232,203) |
| - Inflow | 482 | 21,580 | 12,803 | 131,126 | 26,730 | 192,721 |
| **TOTAL OUTFLOW** | **(156,265)** | **(163,061)** | **(140,716)** | **(158,034)** | **(42,146)** | **(660,222)** |
| **TOTAL INFLOW** | **155,235** | **161,890** | **138,640** | **138,313** | **26,730** | **620,808** |

31.12.2013 in EUR thousand

| NLB Group | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| **FOREIGN EXCHANGE DERIVATIVES** | | | | | | |
| - Forwards | | | | | | |
| - Outflow | (58,587) | (25,562) | (79,379) | (9,118) | - | (172,646) |
| - Inflow | 58,605 | 25,555 | 79,252 | 9,080 | - | 172,492 |
| - Swaps | | | | | | |
| - Outflow | (87,300) | (49,708) | (42,795) | - | - | (179,803) |
| - Inflow | 86,704 | 49,708 | 42,769 | - | - | 179,181 |
| - Futures | | | | | | |
| - Outflow | - | (6,348) | - | - | - | (6,348) |
| - Inflow | - | 6,342 | - | - | - | 6,342 |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| - Interest rate swaps and cross-currency swaps | | | | | | |
| - Outflow | (1,925) | (4,289) | (78,309) | (69,130) | (55,787) | (209,440) |
| - Inflow | 626 | 2,318 | 56,756 | 71,704 | 49,551 | 180,955 |
| - Caps and floors | | | | | | |
| - Outflow | (1) | (2) | (4) | - | - | (7) |
| - Inflow | 1 | 2 | 4 | - | - | 7 |
| **TOTAL OUTFLOW** | **(147,813)** | **(85,909)** | **(200,487)** | **(78,248)** | **(55,787)** | **(568,244)** |
| **TOTAL INFLOW** | **145,936** | **83,925** | **178,781** | **80,784** | **49,551** | **538,977** |

## d) Managing the NLB Group's liquidity reserves

The NLB Group has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available at short notice following the realisation of a stress-test scenario (immediately, i.e. within one week). Liquidity reserves comprise cash, the settlement account at the central bank, sight deposits and short-term deposits at banks, debt securities and loans eligible as collateral for Eurosystem claims, on the basis of which the bank may generate the requisite liquidity at any time. The structure is shown in the table below.

## Structural liquidity reserves

in EUR thousand

| | NLB d.d. | | NLB Group | |
|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Liquidity reserves** | | | | |
| Cash, cash balances at central banks and other demand deposits at banks | 434,438 | 590,645 | 1,127,527 | 1,250,600 |
| Placements with banks | 159,300 | 63,449 | 271,340 | 204,106 |
| Trading book securities | 98,140 | 55,362 | 98,140 | 55,362 |
| Banking book securities | 2,571,366 | 2,647,140 | 3,058,524 | 3,164,398 |
| ECB eligible loans | 864,214 | 820,721 | 864,214 | 820,721 |
| **Total liquid assets** | **4,127,458** | **4,177,317** | **5,419,745** | **5,495,187** |
| Encumbered liquid assets | 260,261 | 1,400,615 | 260,261 | 1,400,615 |
| Unencumbered liquid assets | 3,867,197 | 2,776,702 | 5,159,484 | 4,094,572 |

The NLB Group classifies debt securities as either the trading book or banking book depending on the purpose of their acquisition and the intended manner of their disposal. Securities placed in the banking book serve as an instrument for the placement of excess liquidity, while the purpose of trading book securities is to generate profits resulting from the difference between the purchase price and selling price.

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, the NLB Group uses conservative principles, particularly with respect to the portfolio's structure in terms of issuers' ratings and the maturity of the portfolio. The framework for managing the banking book securities is the Policy for managing debt securities in the banking book, which clearly defines the objectives and characteristics of the associated portfolio.

As at 31 December 2014, the balance of debt securities in the banking book of NLB d.d. was EUR 2,571.4 million (31 December 2013: EUR 2,647.1 million) and in the banking book of the NLB Group EUR 3,058.5 million (31 December 2013: EUR 3,164.4 million). Of these, 84.4% (31 December 2013: 91.6%) were government securities, 12.6% (31 December 2013: 5.1%) were bonds from financial institutions and 3.0% (31 December 2013: 5.8%) corporate securities.

The ECB-eligible credit claims comprise loans which fulfil the high eligibility criteria set by the ECB itself and for domestic loans are specified in the Resolution about general rules on Eurosystem monetary policy instruments and procedures (Chapter 5) adopted by the Bank of Slovenia. NLB d.d. is the only member of the NLB Group that complies with the conditions set by the Eurosystem to classify as an eligible counterparty. This is the reason why the above-mentioned ECB credit claims are included among liquidity reserves. As at 31 December 2014, the volume of the outstanding principal of ECB-eligible credit claims stood at EUR 864.2 million.

NLB d.d. has encumbered liquid assets for different purposes; the biggest proportion represents ECB-eligible loans and debt securities encumbered for secured funding at the ECB.

Members of the NLB Group manage their liquidity reserves on a decentralised basis in compliance with the local liquidity regulation and valid policies of the NLB Group.

## Encumbered liquid assets

31.12.2014 — in EUR thousand

| NLB d.d. | Carrying amount of encumbered assets | Fair value of encumbered securities | Carrying amount of unencumbered assets | Fair value of unencumbered securities |
|---|---|---|---|---|
| Loans on demand | - | - | 328,292 | - |
| Equity instruments | - | - | 34,539 | 34,461 |
| Debt securities | 140,364 | 143,437 | 2,529,142 | 2,602,947 |
| Loans and advances other than loans on demand | 168,874 | - | 5,031,302 | - |
| Other assets | - | - | 653,214 | - |
| **TOTAL** | **309,238** | | **8,576,489** | |

31.12.2014 — in EUR thousand

| | Unencumbered |
|---|---|
| **NLB d.d.** | Nominal amount of collateral recieved or own debt securities issued not available for encumbrance |
| Equity instruments | 228,524 |
| Debt securities | 1,354 |
| Loans and advances other than loans on demand | 55,804 |
| Other assets | 4,959,526 |
| **TOTAL** | **5,245,208** |

NLB d.d. has no collateral received or own debt securities issued available for encumbrance.

31.12.2014 — in EUR thousand

| NLB d.d. | Collateralised liability | Assets given as collateral |
|---|---|---|
| Derivatives | 37,016 | 28,378 |
| Deposits and loans | 4,821,147 | 280,860 |
| **TOTAL** | **4,858,163** | **309,238** |

31.12.2014 — in EUR thousand

| NLB Group | Carrying amount of encumbered assets | Fair value of encumbered securities | Carrying amount of unencumbered assets | Fair value of unencumbered securities |
|---|---|---|---|---|
| Loans on demand | - | - | 930,692 | - |
| Equity instruments | - | - | 38,508 | - |
| Debt securities | 140,364 | 143,437 | 3,017,185 | 3,090,991 |
| Loans and advances other than loans on demand | 168,874 | - | 6,882,567 | - |
| Other assets | - | - | 731,299 | - |
| **TOTAL** | **309,238** | | **11,600,251** | |

31.12.2014 in EUR thousand

| | Unencumbered |
|---|---|
| NLB Group | Nominal amount of collateral recieved or own debt securities issued not available for encumbrance |
| Equity instruments | 247,748 |
| Debt securities | 2,057 |
| Loans and advances other than loans on demand | 154,117 |
| Other assets | 8,959,749 |
| **TOTAL** | **9,363,671** |

The NLB Group has no collateral received or own debt securities issued available for encumbrance.

31.12.2014 in EUR thousand

| NLB Group | Collateralised liability | Assets given as collateral |
|---|---|---|
| Derivatives | 37,016 | 28,378 |
| Deposits and loans | 4,821,147 | 280,860 |
| **TOTAL** | **4,858,163** | **309,238** |

As at 31 December 2014, NLB d.d. and the NLB Group had a large share of unencumbered assets. The amount of encumbered assets equalled to EUR 309.2 million, mainly related to requests arising from the deposit guarantee scheme and the targeted long-term refinancing operation (TLTRO) with the ECB.

Difference between encumbered liquidity reserves and encumbered assets is presented by a deposit placed as collateral for derivative instruments transactions in accordance with CSA contracts. This deposit does not constitute part of liquidity reserves.

The NLB Group has 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 the NLB Group's liquidity and protects the commercial interests of its customers and shareholders.

## Geographical analysis of the debt securities portfolio in the banking book

in EUR mio

| | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | 31.12.2013 | | 31.12.2014 | | 31.12.2013 | |
| | Carrying value | in % | Carrying value | in % | Carrying value | in % | Carrying value | in % |
| **Country** | | | | | | | | |
| Austria | 100 | 3.9 | 79 | 3.0 | 106 | 3.5 | 85 | 2.7 |
| France | 107 | 4.2 | 68 | 2.6 | 114 | 3.7 | 84 | 2.7 |
| Germany | 207 | 8.1 | 120 | 4.5 | 208 | 6.8 | 120 | 3.8 |
| Nederland | 100 | 3.9 | 33 | 1.2 | 100 | 3.3 | 33 | 1.0 |
| Belgium | 54 | 2.1 | 87 | 3.3 | 72 | 2.4 | 106 | 3.4 |
| Slovenia | 1,747 | 67.9 | 2,167 | 81.9 | 1,828 | 59.8 | 2,240 | 70.8 |
| Macedonia | - | - | - | - | 173 | 5.7 | 188 | 5.9 |
| Serbia | - | - | - | - | 88 | 2.9 | 111 | 3.5 |
| Other | 256 | 9.9 | 93 | 3.5 | 369 | 12.1 | 197 | 6.2 |
| **TOTAL** | **2,571** | **100.0** | **2,647** | **100.0** | **3,058** | **100.0** | **3,164** | **100.0** |

*The analysis includes all debt securities in the banking book regardless of their measurement category (note 7.1.u).

## 7.3. Management of non-financial risks

### a) Operational risk

For the purposes of qualitative operational risk management, the NLB Group has established a comprehensive system that includes the collection of loss events and the identification, assessment and management of operational risks. As the highest authority in the area of operational risk management, NLB d.d. appointed an Operational Risk Committee. 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 within an individual entity. All NLB Group entities included in the consolidation (except small entities) have adopted relevant documents that are in line with NLB d.d. standards. In core 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.

Zero tolerance is defined for internal crime, providing information to unauthorised persons and other harmful practices, which also include gross negligence. Banks also monitor the upper tolerance limit for operational risk, which is the limit of loss events' net loss which an individual bank allows in its operations. If the sum of net losses arising from loss events exceeds the tolerance limit, special treatment of the biggest loss events is needed and additional measures taken, as necessary, to prevent the same or similar loss events. A critical limit of loss events is defined, which represents the limit above which the company assesses the need for an increase in the capital requirement for operational risk and any additional risk management measures.

In the NLB Group in 2014 more loss events were reported than in the previous year, with a higher realised net loss. The sum of reported net loss in 2014 compared with the capital requirement for operational risk is still not high, relatively speaking. With the aim of the appropriate and prompt treatment of the most important and biggest loss events, an escalation scale of reporting was introduced. Loss events are reported to the highest decision-making levels in NLB d.d. and to the Supervisory Board. In reporting on loss events, special attention is paid to the reporting of potential loss events with the aim to improve internal controls and thereby prevent similar events.

With a comprehensive identification of operational risks, possible future losses are identified, assessed and managed. The most significant risks are managed actively through measures of mitigation. Special emphasis is given to what are currently the most relevant risks. Particular attention in 2014 was paid to the prevention of loss events in the credit process, risks resulting from activities transferred to external contractors, risks relating to Human Resource management, risks relating to the corporate governance of individual companies and the NLB Group and risks relating to the transfer of claims from companies which are subject to liquidation, wind-up or restructuring. An operational risk profile is prepared once a year on the basis of the operational risk identification.

The capital requirement for operational risk is calculated using the standardised approach at NLB d.d. and using the basic indicator approach at the NLB Group level.

### b) Business Continuity Management (BCM)

The purpose of Business Continuity Management in the NLB Group is to protect lives, assets and reputations. For cases of natural disasters, IT disasters and undesired impacts of the environment we have prepared Business Continuity Plans to soften the consequences.

A yearly plan of Business Continuity Management is prepared to upgrade and improve the Business Continuity system. The basis for updating the Business Continuity Plans is the annual Business Impact Analysis (BIA). On the basis of the BIA we check the sustainability of the Office Building Plans and IT Plans. The best way to check the sustainability of the Plans is by testing. In 2014 we performed 36 tests (32 internal and 6 external) and found no major mismatches.

To provide an even more effective Business Continuity Management System we also prepare and provide education. In 2014 we carried out training for Office Building Crisis Groups and e-education for all employees.

During the natural disasters in 2014 (sleet and floods), we successfully used Office Building Plans and Manual Procedures to assure an uninterrupted business process.

In the NLB Group (except for small companies) we have implemented a Business Continuity Management System. NLB Group members accepted appropriate documents that are in line with NLB d.d. standards and are updated according to Business Continuity Management System improvements. During the last year, we monitored the activities of NLB Group members and provided assistance if needed. In 2014, we assisted in e-education preparation, the introduction of a new Business Continuity coordinator and advised how to implement recommendations of the Slovenian central bank.

### 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 which are also important for the NLB Group are adequately discussed in the context of the internal capital adequacy assessment process (ICAAP). NLB d.d. has established the relevant methodologies for identifying and assessing specific types of risk (capital, strategic, reputation and profitability risk); the methodologies are subject to regular review. The calculation of internal capital requirements for non-financial risks is made quarterly at the NLB Group level. If a certain risk is assessed as a key risk, capital requirements are created. Individual capital requirements for non-financial risks are calculated by certain NLB Group banks in accordance with their national regulations. Significant and material changes in the calculation of capital requirements for individual NLB Group entities could discretionarily result in an increase in relevant capital requirements at the NLB Group level.

## 7.4. Information regarding the quality of debt securities

The portfolio of debt securities in the banking book is intended to provide liquidity and manage the NLB Group's interest rate risk. When managing the portfolio, the NLB Group uses conservative principles, particularly with respect to issuers' ratings and the maturity of the portfolio.

### Structure of the banking book according to the highest credit rating

in EUR mio

| | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | 31.12.2013 | | 31.12.2014 | | 31.12.2013 | |
| | Carrying value | in % | Carrying value | in % | Carrying value | in % | Carrying value | in % |
| **Rating** | | | | | | | | |
| AAA | 469 | 18.2 | 280 | 10.6 | 475 | 15.5 | 286 | 9.0 |
| AA | 205 | 8.0 | 161 | 6.1 | 231 | 7.6 | 195 | 6.2 |
| A | 1,733 | 67.4 | 1,969 | 74.4 | 1,768 | 57.8 | 2,045 | 64.6 |
| BBB | 147 | 5.7 | 227 | 8.6 | 193 | 6.3 | 227 | 7.2 |
| Other | 17 | 0.7 | 10 | 0.4 | 391 | 12.8 | 411 | 13.0 |
| **TOTAL** | **2,571** | **100.0** | **2,647** | **100.0** | **3,058** | **100.0** | **3,164** | **100.0** |

### Structure of the trading book according to the highest credit rating

| **NLB d.d. and NLB Group** | 31.12.2014 | 31.12.2013 |
|---|---|---|
| | in % | in % |
| Rating | | |
| AAA | - | 14.1 |
| BBB | 82.2 | 45.2 |
| B | - | 26.8 |
| Other | 17.8 | 13.9 |
| **TOTAL** | **100.0** | **100.0** |

### 7.5. 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. The 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 the NLB Group. This hierarchy gives the highest priority to observable market data when available and the lowest priority to unobservable market data. The 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 the NLB Group. The fair value of assets and liabilities whose market is not active is determined using valuation techniques. Valuation 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 thousand

| 31.12.2014 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Level 1 | Level 2 | Level 3 | Total fair value |
| **Financial assets** | | | | | | | | |
| Financial instruments held for trading | 90,576 | 47,220 | 1,012 | 138,808 | 90,576 | 46,630 | 1,012 | 138,218 |
| *Debt instruments* | *90,554* | *6,694* | *892* | *98,140* | *90,554* | *6,694* | *892* | *98,140* |
| *Equity instruments* | *22* | - | - | *22* | *22* | - | - | *22* |
| *Derivatives* | - | *40,526* | *120* | *40,646* | - | *39,936* | *120* | *40,056* |
| Derivatives - hedge accounting | - | 2,966 | - | 2,966 | - | 2,966 | - | 2,966 |
| Financial assets designated at fair value through profit or loss | 4,702 | - | - | 4,702 | 6,510 | - | - | 6,510 |
| *Debt instruments* | - | - | - | - | *885* | - | - | *885* |
| *Equity instruments* | *4,702* | - | - | *4,702* | *5,625* | - | - | *5,625* |
| Financial assets available-for-sale | 1,074,296 | 102,527 | 5,925 | 1,182,748 | 1,378,408 | 287,802 | 6,742 | 1,672,952 |
| *Debt instruments* | *1,050,406* | *102,527* | - | *1,152,933* | *1,352,640* | *287,451* | - | *1,640,091* |
| *Equity instruments* | *23,890* | - | *5,925* | *29,815* | *25,768* | *351* | *6,742* | *32,861* |
| **Financial liabilities** | | | | | | | | |
| Financial instruments held for trading | - | 39,593 | 4,171 | 43,764 | - | 39,587 | 4,171 | 43,758 |
| *Derivatives* | - | *39,593* | *4,171* | *43,764* | - | *39,587* | *4,171* | *43,758* |
| Derivatives - hedge accounting | - | 43,985 | - | 43,985 | - | 43,985 | - | 43,985 |
| Financial liabilities designated at fair value through profit or loss | - | 4,701 | - | 4,701 | - | 4,701 | - | 4,701 |
| **Non-financial assets** | | | | | | | | |
| Investment properties | - | 1,458 | - | 1,458 | - | 41,472 | - | 41,472 |
| Non-current assets classified as held for sale | - | 2,580 | - | 2,580 | - | 5,643 | - | 5,643 |
| **Impaired non-financial assets** | | | | | | | | |
| Recoverable amount of property, plant and equipment | - | 76 | - | 76 | - | 5,788 | - | 5,788 |
| Recoverable amount of investment in subsidiaries, associates and joint ventures | - | 448 | - | 448 | - | - | - | - |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Level 1 | Level 2 | Level 3 | Total fair value |
| **Financial assets** | | | | | | | | |
| Financial instruments held for trading | 47,915 | 35,969 | 20,895 | 104,779 | 47,915 | 35,525 | 20,895 | 104,335 |
| *Debt instruments* | *47,649* | *3,655* | *4,058* | *55,362* | *47,649* | *3,655* | *4,058* | *55,362* |
| *Equity instruments* | *266* | - | *16,719* | *16,985* | *266* | - | *16,719* | *16,985* |
| *Derivatives* | - | *32,314* | *118* | *32,432* | - | *31,870* | *118* | *31,988* |
| Derivatives - hedge accounting | - | 5,426 | - | 5,426 | - | 5,426 | - | 5,426 |
| Financial assets designated at fair value through profit or loss | 3,801 | - | - | 3,801 | 6,615 | - | - | 6,615 |
| *Debt instruments* | - | - | - | - | *895* | - | - | *895* |
| *Equity instruments* | *3,801* | - | - | *3,801* | *5,720* | - | - | *5,720* |
| Financial assets available-for-sale | 1,131,068 | 16,531 | 7,813 | 1,155,412 | 1,561,557 | 105,273 | 8,287 | 1,675,117 |
| *Debt instruments* | *1,059,986* | *16,531* | *3,573* | *1,080,090* | *1,488,938* | *104,837* | *3,573* | *1,597,348* |
| *Equity instruments* | *71,082* | - | *4,240* | *75,322* | *72,619* | *436* | *4,714* | *77,769* |
| **Financial liabilities** | | | | | | | | |
| Financial instruments held for trading | - | 30,148 | 3,916 | 34,064 | - | 30,147 | 3,916 | 34,063 |
| *Derivatives* | - | *30,148* | *3,916* | *34,064* | - | *30,147* | *3,916* | *34,063* |
| Derivatives - hedge accounting | - | 36,519 | - | 36,519 | - | 36,519 | - | 36,519 |
| Financial liabilities designated at fair value through profit or loss | - | 3,800 | - | 3,800 | - | 3,800 | - | 3,800 |
| **Non-financial assets** | | | | | | | | |
| Investment properties | - | 1,458 | - | 1,458 | - | 34,844 | - | 34,844 |
| Non-current assets classified as held for sale | - | 2,327 | - | 2,327 | - | 7,101 | 10,481 | 17,582 |

## b) Significant transfers of financial instruments between levels of valuation

The NLB Group's policy of transfers of financial instruments between levels of valuation is illustrated in the table below.

| Fair value hierarchy | | | | | Derivatives | | |
|---|---|---|---|---|---|---|---|
| | Equities | Equity stake | Funds | Fixed income | Equities | Currency | 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* | | | *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) | | | |

in EUR thousand

| 31.12.2014 | NLB d.d. and NLB Group | | | | | |
|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | |
| | from | to | from | to | from | to |
| **Financial assets** | | | | | | |
| Financial instruments held for trading | | | | | | |
| *- debt instruments* | *-* | *1,248* | *(1,248)* | *4,611* | *(4,611)* | *-* |
| Financial assets available-for-sale | | | | | | |
| *- debt instruments* | *-* | *-* | *-* | *5,042* | *(5,042)* | *-* |

in EUR thousand

| 31.12.2013 | NLB d.d. and NLB Group | | | | | |
|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | |
| | from | to | from | to | from | to |
| **Financial assets** | | | | | | |
| Financial instruments held for trading | | | | | | |
| *- debt instruments* | *-* | *-* | *(3,502)* | *1,588* | *(1,588)* | *3,502* |
| Financial assets available-for-sale | | | | | | |
| *- debt instruments* | *-* | *75,840* | *(79,460)* | *-* | *-* | *3,620* |

### c) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments in Level 2 of the fair value hierarchy at the NLB Group include:
- debt securities: government bonds not quoted on active markets;
- equities: investment funds; and
- derivatives: derivatives except forward derivatives and options on equity instruments that are not quoted on active markets.

The majority of financial assets classified in Level 2 are bonds and derivatives held for trading.

When valuing bonds classified on Level 2, the 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 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 risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources such as data from lessors and lessees, web databases and own databases. The NLB Group has observable data for all investment property at its disposal. If observable data for similar locations are not available, the NLB Group uses data from wider locations and appropriately adjusts such data.

Non-current assets held for sale represent assets reclassified from property, plant and equipment and equity investments that are measured at fair value less costs to sell.

### d) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments at Level 3 of the fair value hierarchy in the NLB Group include:
- debt securities: structured debt securities from inactive emerging markets; and
- equities: mainly Slovenian corporate and financial equities that are not quoted in active markets;
- derivative financial instruments: forward derivatives and options on equity instruments that are not quoted in 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.

The majority of financial assets classified on Level 3 are shares and ownership interests in companies and financial entities. The NLB Group uses three valuation methods for the valuation of equity financial assets: the income approach, market approach and cost approach.

The most commonly used valuation technique is the income approach. The income approach is based on an estimation of future cash flows discounted to the present value. Estimations of the cash flows that an entity will be able to generate in the future are crucial for future cash flows. The NLB Group makes projections of income statements and statements of financial position from which it derives cash flow projections for a longer period. The key variables that affect the amount of cash flows, and thus the estimated fair value of the financial asset, also include 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 2.5% are used for the period following the period of accurate forecasting. The NLB Group can select values of unobservable input data within a reasonable possible range, but uses those input data that other market participants would use.

The following assumptions are used when valuing available-for-sale financial assets and financial assets held for trading classified on Level 3:

| | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Available-for-sale financial assets** | | |
| Long term weighted average cost of capital | 8.8%-12.9% | 6.8%-12.7% |
| EBITDA margin | 8.5%-23% | 6.7%-22% |
| Long term free cash flow growth | 2.5% | 2.5% |
| **Financial assets held for trading** | | |
| Long term weighted average cost of capital | 8.8%-13.2% | 6.8%-12.7% |
| EBITDA margin | 5%-23% | 6.7%-22% |
| Long term free cash flow growth | 2.5% | 2.5% |

When valuing derivatives on Level 3, the value of underlying instruments and the risk-free yield curve are used in the valuation approach.

## Sensitivity to valuation

Sensitivity to the valuation assumptions disclosed in the table below is illustrated by how much the fair value of financial instruments on Level 3 would increase or decrease if management had used reasonably possible alternative valuation assumptions that were not based on observable market data. The presentation of the sensitivity to valuation based on the discounted cash flow model includes a range of estimated values of the extent of the increase or decrease of the assumptions used in amount of 10% of the value applied.

## Free cash flow method

in EUR thousand

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | 10 % | -10 % | 10 % | -10 % |
| **Available-for-sale financial assets** | | | | |
| Long term weighted average cost of capital | (90) | 117 | (164) | 162 |
| EBITDA margin | 139 | (141) | 372 | (366) |
| Long term free cash flow growth | 176 | (358) | 196 | (45) |
| **Financial assets held for trading** | | | | |
| Long term weighted average cost of capital | - | - | (1,151) | 1,503 |
| EBITDA margin | - | - | 1,966 | (1,966) |
| Long term free cash flow growth | - | - | 359 | (336) |

## Movements of financial assets and liabilities at Level 3

in EUR thousand

| NLB d.d. | Financial instruments held for trading | | | Financial assets available-for-sale | | Total financial assets | Financial liabilities held for trading |
|---|---|---|---|---|---|---|---|
| | Debt instruments | Equity instruments | Derivatives | Debt instruments | Equity instruments | | Derivatives |
| **Balance at 1 January 2013** | **2,323** | **17,574** | **-** | **-** | **14,751** | **34,648** | **4,153** |
| Exchange differences | (36) | - | - | - | - | (36) | - |
| Valuation: | | | | | | | |
| *- through profit or loss* | *(143)* | *(833)* | *118* | *(47)* | *(6,845)* | *(7,750)* | *(237)* |
| *- recognised in other comprehensive income* | - | - | - | - | *(1,669)* | *(1,669)* | - |
| Purchases | - | - | - | - | 512 | 512 | - |
| Sales, issues and settlements | - | - | - | - | (2,406) | (2,406) | - |
| Transfers into level 3 | 3,502 | - | - | 3,620 | - | 7,122 | - |
| Transfer out of level 3 | (1,588) | (22) | - | - | (103) | (1,713) | - |
| **Balance at 31 December 2013** | **4,058** | **16,719** | **118** | **3,573** | **4,240** | **28,708** | **3,916** |
| Exchange differences | 105 | - | - | - | - | 105 | - |
| Valuation: | | | | | | | |
| *- through profit or loss* | *1,363* | - | *2* | *1,785* | *(516)* | *2,634* | *255* |
| *- recognised in other comprehensive income* | - | - | - | *31* | *2,549* | *2,580* | - |
| Purchases | 220 | - | - | 286 | - | 506 | - |
| Sales, issues and settlements | (243) | (16,719) | - | (633) | (348) | (17,943) | - |
| Transfer out of level 3 | (4,611) | - | - | (5,042) | - | (9,653) | - |
| **Balance at 31 December 2014** | **892** | **-** | **120** | **-** | **5,925** | **6,937** | **4,171** |

in EUR thousand

| NLB Group | Financial instruments held for trading | | | Financial assets available-for-sale | | Total financial assets | Financial liabilities held for trading |
|---|---|---|---|---|---|---|---|
| | Debt instruments | Equity instruments | Derivatives | Debt instruments | Equity instruments | | Derivatives |
| **Balance at 1 January 2013** | **2,323** | **17,574** | **-** | **-** | **15,193** | **35,090** | **4,153** |
| Exchange differences | (36) | - | - | - | (3) | (39) | - |
| Valuation: | | | | | | | |
| *- through profit or loss* | *(143)* | *(833)* | *118* | *(47)* | *(6,845)* | *(7,750)* | *(237)* |
| *- recognised in other comprehensive income* | - | - | - | - | *(1,670)* | *(1,670)* | - |
| Purchases | - | - | - | - | 512 | 512 | - |
| Sales, issues and settlements | - | - | - | - | (2,406) | (2,406) | - |
| Transfers into level 3 | 3,502 | - | - | 3,620 | 72 | 7,194 | - |
| Transfer out of level 3 | (1,588) | (22) | - | - | (139) | (1,749) | - |
| **Balance at 31 December 2013** | **4,058** | **16,719** | **118** | **3,573** | **4,714** | **29,182** | **3,916** |
| Exchange differences | 105 | - | - | - | (4) | 101 | - |
| Valuation: | | | | | | | |
| *- through profit or loss* | *1,363* | - | *2* | *1,785* | *(572)* | *2,578* | *255* |
| *- recognised in other comprehensive income* | - | - | - | *31* | *2,606* | *2,637* | - |
| Purchases | 220 | - | - | 286 | 415 | 921 | - |
| Sales, issues and settlements | (243) | (16,719) | - | (633) | (359) | (17,954) | - |
| Transfer out of level 3 | (4,611) | - | - | (5,042) | (58) | (9,711) | - |
| **Balance at 31 December 2014** | **892** | **-** | **120** | **-** | **6,742** | **7,754** | **4,171** |

NLB d.d. and the NLB Group recognise 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. Effects from the valuation of available-for-sale financial assets are recognised in the income statement item Impairment charge and in the accumulated other comprehensive income item Available-for-sale financial assets.

In 2014, NLB d.d. and the NLB Group recognised the following unrealised gains or losses for financial instruments that are at Level 3 as at 31 December 2014:

in EUR thousand

| 31.12.2014 | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Trading assets | Available-for-sale financial assets | Trading liabilities | Trading assets | Available-for-sale financial assets | Trading liabilities |
| **Items of Income statement** | | | | | | |
| Gains from financial assets and liabilities held for trading | 4 | - | 255 | 4 | - | 255 |
| Impairment charge | - | 516 | - | - | 570 | - |
| Foreign exchange translation gains | 105 | - | - | 105 | - | - |
| **Item of Other comprehensive income** | | | | | | |
| Available-for-sale financial assets | - | - | - | - | 58 | - |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Trading assets | Available-for-sale financial assets | Trading liabilities | Trading assets | Available-for-sale financial assets | Trading liabilities |
| **Items of Income statement** | | | | | | |
| Losses from financial assets and liabilities held for trading | (1,994) | - | (2,280) | (1,994) | - | (2,280) |
| Impairment charge | - | (8,759) | - | - | (8,759) | - |
| Foreign exchange translation losses | (36) | - | - | (36) | - | - |
| **Item of Other comprehensive income** | | | | | | |
| Available-for-sale financial assets | - | (1,423) | - | - | (1,421) | - |

## e) Fair value of financial instruments not measured at fair value in financial statements

in EUR thousand

| | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2014 | | 31.12.2013 | | 31.12.2014 | | 31.12.2013 | |
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| Loans and advances | | | | | | | | |
| - debt securities | 706,785 | 720,046 | 702,791 | 677,833 | 706,785 | 720,046 | 702,791 | 677,833 |
| - loans and advances to banks | 159,300 | 164,397 | 160,569 | 167,375 | 271,340 | 272,687 | 224,590 | 247,962 |
| - loans and advances to customers | 4,993,040 | 4,969,519 | 5,426,129 | 5,339,782 | 6,708,332 | 6,728,908 | 7,041,430 | 6,906,445 |
| - loans to government | 387,378 | 419,543 | 353,339 | 379,734 | 515,315 | 544,055 | 479,420 | 478,803 |
| - loans to financial organizations | 548,731 | 569,502 | 655,236 | 698,083 | 154,132 | 158,023 | 169,421 | 176,472 |
| - loans to individuals | 1,884,000 | 1,921,247 | 1,858,175 | 1,852,633 | 2,803,302 | 2,900,577 | 2,716,082 | 2,731,964 |
| *- granted overdrafts* | *159,967* | *158,573* | *167,533* | *166,138* | *192,738* | *189,775* | *199,647* | *196,482* |
| *- loans for houses and flats* | *1,143,952* | *1,174,006* | *1,129,302* | *1,116,024* | *1,442,022* | *1,513,366* | *1,414,648* | *1,411,673* |
| *- consumer loans* | *472,792* | *481,530* | *503,147* | *512,332* | *910,752* | *940,316* | *892,455* | *914,714* |
| *- other loans* | *107,289* | *107,138* | *58,193* | *58,139* | *257,790* | *257,120* | *209,332* | *209,095* |
| - loans to other customers | 2,172,931 | 2,059,227 | 2,559,379 | 2,409,332 | 3,235,583 | 3,126,253 | 3,676,507 | 3,519,206 |
| *- loans to large corporate customers* | *1,418,494* | *1,309,065* | *1,617,635* | *1,473,369* | *1,819,363* | *1,709,035* | *2,003,783* | *1,846,477* |
| *- loans to small and medium size enterprises* | *754,437* | *750,162* | *941,744* | *935,963* | *1,416,220* | *1,417,218* | *1,672,724* | *1,672,729* |
| - other financial assets | 47,836 | 47,836 | 41,337 | 41,337 | 71,769 | 71,769 | 63,919 | 63,919 |
| Held-to-maturity investments | 711,648 | 775,265 | 864,259 | 882,573 | 711,648 | 775,265 | 864,259 | 882,573 |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | 91,115 | 91,017 | 74,266 | 73,292 | 62,334 | 62,371 | 37,457 | 36,340 |
| - borrowings from banks and central banks | 643,578 | 633,768 | 2,261,739 | 2,152,764 | 714,722 | 706,449 | 2,386,208 | 2,275,387 |
| - due to customers | 6,294,925 | 6,314,378 | 5,743,673 | 5,759,602 | 8,943,832 | 8,984,830 | 8,257,077 | 8,320,225 |
| - borrowings from other customers | 33,511 | 33,410 | 36,284 | 34,859 | 136,660 | 140,362 | 162,309 | 162,512 |
| - debt securities in issue | 359,853 | 373,777 | 68,782 | 64,305 | 359,853 | 373,777 | 68,782 | 64,305 |
| - subordinated liabilities | - | - | - | - | 17,328 | 14,629 | 21,874 | 20,686 |
| - other financial liabilities | 46,223 | 46,223 | 61,609 | 61,609 | 71,886 | 71,886 | 86,609 | 86,609 |

***Loans and advances to banks***
The estimated fair value of deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and residual maturities. The fair value of overnight deposits equals their carrying value.

***Loans and advances to customers***
Loans and advances are net of the allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates 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 to their carrying value. However, their actual value for the 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 the NLB Group differs from the carrying amount.

The estimated fair value of other deposits and borrowings from customers is based on discounted cash flows using interest rates for new deposits with similar residual maturities.

***Held-to-maturity financial assets and issued debt securities***
The fair value of held-to-maturity financial assets and issued debt securities is based on their quoted market price or value calculated by using a discounted cash flow method and prevailing money market interest rates.

***Loan commitments***
For credit facilities that are drawn soon after the NLB Group grants loans (drawn at market rates) and loan commitments to those clients that are not impaired, the fair value is close to zero. For loan commitments to clients that are impaired, the fair value represents the amount of the created provisions.

***Other financial assets and liabilities***
The carrying amount of other financial assets and liabilities is a reasonable approximation of their fair value as they mainly relate to short-term receivables and payables.

## Fair value hierarchy of financial instruments not measured at fair value in financial statements

in EUR thousand

| 31.12.2014 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Level 1 | Level 2 | Level 3 | Total fair value |
| Loans and advances | | | | | | | | |
| - debt securities | - | 720,046 | - | 720,046 | - | 720,046 | - | 720,046 |
| - loans and advances to banks | - | 164,397 | - | 164,397 | - | 272,687 | - | 272,687 |
| - loans and advances to customers | - | 4,969,519 | - | 4,969,519 | - | 6,728,908 | - | 6,728,908 |
| - loans to government | - | 419,543 | - | 419,543 | - | 544,055 | - | 544,055 |
| - loans to financial organizations | - | 569,502 | - | 569,502 | - | 158,023 | - | 158,023 |
| - loans to individuals | - | 1,921,247 | - | 1,921,247 | - | 2,900,577 | - | 2,900,577 |
| - loans to other customers | - | 2,059,227 | - | 2,059,227 | - | 3,126,253 | - | 3,126,253 |
| - other financial assets | - | 47,836 | - | 47,836 | - | 71,769 | - | 71,769 |
| Held-to-maturity investments | - | 775,265 | - | 775,265 | - | 775,265 | - | 775,265 |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | - | 91,017 | - | 91,017 | - | 62,371 | - | 62,371 |
| - borrowings from banks and central banks | - | 633,768 | - | 633,768 | - | 706,449 | - | 706,449 |
| - due to customers | - | 6,314,378 | - | 6,314,378 | - | 8,984,830 | - | 8,984,830 |
| - borrowings from other customers | - | 33,410 | - | 33,410 | - | 140,362 | - | 140,362 |
| - debt securities in issue | 373,777 | - | - | 373,777 | 373,777 | - | - | 373,777 |
| - subordinated liabilities | - | - | - | - | - | 14,629 | - | 14,629 |
| - other financial liabilities | - | 46,223 | - | 46,223 | - | 71,886 | - | 71,886 |

in EUR thousand

| 31.12.2013 | NLB d.d. | | | | NLB Group | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Level 1 | Level 2 | Level 3 | Total fair value |
| Loans and advances | | | | | | | | |
| - debt securities | - | 677,833 | - | 677,833 | - | 677,833 | - | 677,833 |
| - loans and advances to banks | - | 167,375 | - | 167,375 | - | 247,962 | - | 247,962 |
| - loans and advances to customers | - | 5,339,782 | - | 5,339,782 | - | 6,906,445 | - | 6,906,445 |
| - loans to government | - | 379,734 | - | 379,734 | - | 478,803 | - | 478,803 |
| - loans to financial organizations | - | 698,083 | - | 698,083 | - | 176,472 | - | 176,472 |
| - loans to individuals | - | 1,852,633 | - | 1,852,633 | - | 2,731,964 | - | 2,731,964 |
| - loans to other customers | - | 2,409,332 | - | 2,409,332 | - | 3,519,206 | - | 3,519,206 |
| - other financial assets | - | 41,337 | - | 41,337 | - | 63,919 | - | 63,919 |
| Held-to-maturity investments | - | 882,573 | - | 882,573 | - | 882,573 | - | 882,573 |
| Financial liabilities measured at amortised cost | | | | | | | | |
| - deposits from banks and central banks | - | 73,292 | - | 73,292 | - | 36,340 | - | 36,340 |
| - borrowings from banks and central banks | - | 2,152,764 | - | 2,152,764 | - | 2,275,387 | - | 2,275,387 |
| - due to customers | - | 5,759,602 | - | 5,759,602 | - | 8,320,225 | - | 8,320,225 |
| - borrowings from other customers | - | 34,859 | - | 34,859 | - | 162,512 | - | 162,512 |
| - debt securities in issue | 64,305 | - | - | 64,305 | 64,305 | - | - | 64,305 |
| - subordinated liabilities | - | - | - | - | - | 20,686 | - | 20,686 |
| - other financial liabilities | - | 61,609 | - | 61,609 | - | 86,609 | - | 86,609 |

## 7.6. Offsetting financial assets and financial liabilities

The NLB Group entered into foreign exchange netting arrangements with certain banks and companies. Cash flows from all FX derivatives with counterparties that are due on the same day are settled on a net basis, i.e. a single cash flow for each currency. Assets and liabilities related to these FX 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 European Market Infrastructure Regulation (EMIR), the NLB Group also novated certain standardised derivative financial instruments 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.

31.12.2014 — in EUR thousand

| NLB d.d. | | | | Amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| FINANCIAL ASSETS/LIABILITIES | Gross amounts of recognised financial assets/liabilities | Gross amounts set off in the statement of financial position | Net amounts of financial assets/ liabilities presented in the statement of financial position | Impact of master netting agreements | Financial instruments collateral | Net amount |
| Derivatives - assets | 40,526 | - | 40,526 | 16,919 | 8,396 | 15,211 |
| Derivatives - liabilities | 63,086 | - | 63,086 | 16,919 | 23,972 | 22,195 |

31.12.2013 — in EUR thousand

| NLB d.d. | | | | Amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| FINANCIAL ASSETS/LIABILITIES | Gross amounts of recognised financial assets/liabilities | Gross amounts set off in the statement of financial position | Net amounts of financial assets/ liabilities presented in the statement of financial position | Impact of master netting agreements | Financial instruments collateral | Net amount |
| Derivatives - assets | 14,712 | - | 14,712 | 1,305 | - | 13,407 |
| Derivatives - liabilities | 28,596 | - | 28,596 | - | 1,152 | 27,444 |

31.12.2014 — in EUR thousand

| NLB Group | | | | Amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| FINANCIAL ASSETS/LIABILITIES | Gross amounts of recognised financial assets/liabilities | Gross amounts set off in the statement of financial position | Net amounts of financial assets/ liabilities presented in the statement of financial position | Impact of master netting agreements | Financial instruments collateral | Net amount |
| Derivatives - assets | 39,931 | - | 39,931 | 16,919 | 8,396 | 14,616 |
| Derivatives - liabilities | 63,086 | - | 63,086 | 16,919 | 23,972 | 22,195 |

31.12.2013 — in EUR thousand

| NLB Group | | | | Amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| FINANCIAL ASSETS/LIABILITIES | Gross amounts of recognised financial assets/liabilities | Gross amounts set off in the statement of financial position | Net amounts of financial assets/ liabilities presented in the statement of financial position | Impact of master netting agreements | Financial instruments collateral | Net amount |
| Derivatives - assets | 14,212 | - | 14,212 | 1,305 | - | 12,907 |
| Derivatives - liabilities | 28,596 | - | 28,596 | - | 1,152 | 27,444 |

# 8. Other disclosures

## 8.1. Analysis by segment

## a) Segments

2014 — in EUR thousand

| NLB Group | Corporate banking in Slovenia | Retail banking in Slovenia | Financial markets in Slovenia | Core foreign markets | Non-core markets and activities | Other activities | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| Total net income | 107,814 | 124,749 | 94,478 | 139,388 | 47,996 | 2,218 | - | 516,643 |
| *Net income from external customers* | *125,675* | *91,288* | *89,586* | *145,147* | *61,805* | *(2,466)* | - | *511,035* |
| *Intersegment net income* | *(17,861)* | *33,461* | *4,892* | *(5,759)* | *(13,809)* | *4,684* | - | *5,608* |
| Net interest income | 58,932 | 80,122 | 69,467 | 103,656 | 17,829 | - | - | 330,006 |
| *Net interest income from external customers* | *77,018* | *41,164* | *65,075* | *110,676* | *36,073* | - | - | *330,006* |
| *Intersegment net interest income* | *(18,086)* | *38,958* | *4,392* | *(7,020)* | *(18,244)* | - | - | - |
| Administrative expenses | (51,032) | (78,469) | (19,221) | (81,568) | (30,455) | (12,590) | - | (273,335) |
| Depreciation and amortisation | (6,631) | (12,011) | (2,219) | (8,036) | (4,467) | (2,412) | - | (35,776) |
| Reportable segment profit/(loss) before impairment and provision charge | 50,151 | 34,269 | 73,038 | 49,784 | 13,074 | (12,784) | - | 207,532 |
| Share of profit of associates and joint ventures | - | 3,106 | - | - | - | - | - | 3,106 |
| Impairment and provisions charge | (43,291) | (6,856) | 12,426 | (39,835) | (64,142) | 259 | - | (141,439) |
| (Loss)/profit before income tax | 6,860 | 30,519 | 85,464 | 9,949 | (51,068) | (12,525) | - | 69,199 |
| *Non-controlling interests* | - | - | - | *2,732* | - | - | - | *2,732* |
| *Owners of the parent* | *6,860* | *30,519* | *85,464* | *7,217* | *(51,068)* | *(12,525)* | - | *66,467* |
| Income tax | - | - | - | - | - | - | (4,131) | (4,131) |
| **Profit for the year** | | | | | | | | **65,068** |
| | | | | | | | | |
| Reportable segment assets | 2,141,427 | 2,012,245 | 3,416,236 | 3,337,451 | 912,275 | 52,330 | - | 11,871,964 |
| Investments in associates and joint ventures | - | 37,525 | - | - | - | - | - | 37,525 |
| Reportable segment liabilities | 1,307,244 | 4,517,289 | 1,677,059 | 2,883,458 | 123,954 | 31,190 | - | 10,540,194 |
| Additions to non-current assets | 1,317 | 4,185 | 265 | 7,189 | 9,067 | - | - | 22,023 |

2013 — in EUR thousand

| NLB Group | Corporate banking in Slovenia | Retail banking in Slovenia | Financial markets in Slovenia | Core foreign markets | Non-core markets and activities | Other activities | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| Total net income | (96,593) | 117,172 | 307,652 | 130,311 | (388,963) | (3,022) | - | 66,557 |
| *Net income from external customers* | *(49,765)* | *57,381* | *270,066* | *138,066* | *(350,779)* | *(4,160)* | - | *60,809* |
| *Intersegment net income* | *(46,828)* | *59,791* | *37,586* | *(7,755)* | *(38,184)* | *1,138* | - | *5,748* |
| Net interest income | 46,613 | 72,924 | 37,588 | 89,978 | (13,513) | (86) | - | 233,504 |
| *Net interest income from external customers* | *93,094* | *11,364* | *1* | *98,465* | *30,584* | *(4)* | - | *233,504* |
| *Intersegment net interest income* | *(46,481)* | *61,560* | *37,587* | *(8,487)* | *(44,097)* | *(82)* | - | - |
| Administrative expenses | (42,630) | (100,186) | (20,086) | (80,977) | (37,191) | (13,184) | - | (294,254) |
| Depreciation and amortisation | (5,037) | (17,266) | (1,575) | (13,721) | (5,392) | (1,341) | - | (44,332) |
| Reportable segment (loss)/profit before impairment and provision charge | (144,260) | (280) | 285,991 | 35,613 | (431,546) | (17,547) | - | (272,029) |
| Share of profits/(losses) of associates and joint ventures | - | 2,637 | - | - | (29,106) | - | - | (26,469) |
| Impairment and provisions charge | (346,391) | (26,701) | (15,902) | (191,927) | (477,790) | (11,482) | - | (1,070,193) |
| (Loss)/profit before income tax | (490,651) | (24,344) | 270,089 | (156,314) | (938,442) | (29,029) | - | (1,368,691) |
| *Non-controlling interests* | - | - | - | *(575)* | *(6)* | - | - | *(581)* |
| *Owners of the parent* | *(490,651)* | *(24,344)* | *270,089* | *(155,739)* | *(938,436)* | *(29,029)* | - | *(1,368,110)* |
| Income tax | - | - | - | - | - | - | (73,453) | (73,453) |
| **Loss for the year** | | | | | | | | **(1,442,144)** |
| | | | | | | | | |
| Reportable segment assets | 2,419,912 | 2,009,713 | 3,554,086 | 3,265,290 | 1,184,777 | 28,072 | - | 12,461,850 |
| Investments in associates and joint ventures | - | 28,284 | - | - | - | - | - | 28,284 |
| Reportable segment liabilities | 1,307,183 | 4,346,816 | 2,575,213 | 2,800,601 | 146,462 | 42,862 | - | 11,219,137 |
| Additions to non-current assets | 2,969 | 9,764 | 655 | 9,617 | 7,314 | - | - | 30,319 |

Segment reporting is presented in accordance with the strategy on the basis of the organisational structure used in management reporting of the NLB Group's results.

The 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.

The business activities of NLB d.d. are divided into several segments. Interest income is reallocated between segments on the basis of the multiple internal transfer rates (fund transfer pricing - FTP). FTP is defined by the Assets and Liabilities Management Department, and determined by reference to market interest rate benchmarks, bid/ask spread, liquidity premium and ALM subvention. FTP is set on individual deal bases that consider the interest rate variability, currency and contractual maturity of the deal. FTP stays fixed till the final maturity date of the deal (in the case of a fixed interest rate) or is changed at the respective repricing date (in the case of a variable interest rate).

Other NLB Group members are, based on their business activity, included in only one segment.

In 2014 the segment methodology at NLB d.d. was supplemented; the new display of the Retail banking segment only includes transactions with individual clients. This change also affects the Corporate banking segment and Financial markets segment.  Additionally, in 2014 changed the methodology of transfer prices, which affect the amount of net interest income by segment and the share of interest income belonging to the ALM, which is shown in the segment of the financial markets. In internal calculations of the bank, revenues and expenses regarding information technology services to external clients are not allocated among segments anymore but remain on the segment other. The segment reporting for 2013 has been adapted to these changes.

Description of the NLB Group's segments:
- Retail banking in Slovenia represents banking with individuals in NLB d.d. 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, 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;
- Core foreign markets represent all business activities of NLB Group members in core markets of the NLB Group (Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Serbia), except leasing entities;
- Non-core markets and activities represent total activities from the NLB Group members in non-core markets of the NLB Group (Croatia, Germany, Switzerland and Czech Republic) and all leasing entities. It also includes the operating result of non-financial entities (NLB Propria, Prospera Plus) and the performance of the Internal restructuring unit of NLB d.d.; and
- Other represents items of NLB d.d. income statement not related to reportable segments.

The NLB Group is primarily a financial group and net interest income represents the majority of its net revenues. The 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 the NLB Group's income.

## b) Geographical information

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

The tables below present the consolidated data of the NLB Group.

in EUR thousand

| NLB Group | Revenues | | Net income | | Profit/(loss) before income tax | | Income tax | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Slovenia | 458,402 | 455,802 | 359,224 | (54,555) | 82,421 | (1,029,838) | (1,369) | (73,490) |
| South East Europe | 232,107 | 230,782 | 150,055 | 141,954 | (1,514) | (202,343) | (2,752) | 153 |
| *Macedonia* | *76,907* | *73,995* | *51,041* | *46,533* | *12,894* | *11,181* | *(1,178)* | *-* |
| *Serbia* | *23,660* | *21,911* | *11,564* | *11,170* | *(27,104)* | *(99,368)* | *454* | *(1,601)* |
| *Montenegro* | *31,551* | *37,711* | *17,340* | *21,444* | *2,903* | *(41,440)* | *74* | *3,419* |
| *Croatia* | *881* | *769* | *1,985* | *840* | *(2,741)* | *(23,830)* | *-* | *(6)* |
| *Bosnia and Herzegovina* | *67,126* | *65,246* | *46,912* | *44,151* | *7,915* | *(33,612)* | *(1,405)* | *(1,246)* |
| *Bulgaria* | *-* | *52* | *(9)* | *60* | *(1,475)* | *(668)* | *-* | *-* |
| *Kosovo* | *31,982* | *31,098* | *21,222* | *17,756* | *6,094* | *(14,606)* | *(697)* | *(413)* |
| Western Europe | 2,085 | 533 | 1,698 | 208 | (9,191) | (132,376) | (9) | (9) |
| *Germany* | *77* | *162* | *1,118* | *320* | *(1,347)* | *(4,471)* | *-* | *-* |
| *Switzerland* | *2,008* | *371* | *580* | *(112)* | *(7,844)* | *(118,473)* | *(9)* | *(9)* |
| *Austria* | *-* | *-* | *-* | *-* | *-* | *(9,432)* | *-* | *-* |
| Czech Republic | - | 277 | 58 | (26,798) | (2,517) | (4,134) | (1) | (107) |
| **TOTAL** | **692,594** | **687,394** | **511,035** | **60,809** | **69,199** | **(1,368,691)** | **(4,131)** | **(73,453)** |

The column net income (turnover) includes net interest income, net fee and commission income, the net effect of financial instruments and net operating income.

in EUR thousand

| NLB Group | Non-current assets | | Total assets | | Number of employees | |
|---|---|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Slovenia | 219,691 | 232,319 | 8,375,571 | 8,987,307 | 3,327 | 3,661 |
| South East Europe | 116,922 | 123,679 | 3,432,197 | 3,378,985 | 3,107 | 3,229 |
| *Macedonia* | *35,113* | *35,300* | *1,044,617* | *962,598* | *847* | *823* |
| *Serbia* | *25,392* | *32,214* | *304,384* | *387,321* | *450* | *587* |
| *Montenegro* | *11,005* | *11,841* | *512,631* | *498,806* | *335* | *328* |
| *Croatia* | *4,495* | *3,611* | *41,446* | *47,461* | *19* | *21* |
| *Bosnia and Herzegovina* | *26,682* | *27,764* | *1,064,185* | *1,016,479* | *929* | *943* |
| *Bulgaria* | *1* | *1* | *351* | *897* | *2* | *2* |
| *Kosovo* | *14,234* | *12,948* | *464,583* | *465,423* | *525* | *525* |
| Western Europe | 310 | 435 | 96,972 | 116,708 | 14 | 22 |
| *Germany* | *275* | *330* | *3,326* | *6,398* | *5* | *10* |
| *Switzerland* | *35* | *105* | *93,646* | *110,310* | *9* | *12* |
| Czech Republic | - | - | 4,749 | 7,134 | - | - |
| **TOTAL** | **336,923** | **356,433** | **11,909,489** | **12,490,134** | **6,448** | **6,912** |

The table below presents data on NLB Group members before intercompany eliminations and consolidation journals.

in EUR thousand

| NLB Group | Revenues | | Net income | | Profit/(loss) before income tax | | Income tax | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Slovenia | 491,617 | 512,683 | 382,035 | (22,861) | 68,794 | (1,523,628) | (1,400) | (87,864) |
| South East Europe | 233,504 | 233,616 | 142,111 | 131,682 | (391) | (140,449) | (2,980) | 39 |
| *Macedonia* | *77,174* | *74,663* | *49,776* | *45,290* | *12,634* | *10,985* | *(1,178)* | - |
| *Serbia* | *24,080* | *22,733* | *11,955* | *10,832* | *(25,640)* | *(89,897)* | *243* | *(1,829)* |
| *Montenegro* | *31,721* | *38,622* | *13,584* | *17,585* | *979* | *(38,742)* | *57* | *3,508* |
| *Croatia* | *823* | *896* | *268* | *(1,996)* | *(2,712)* | *(23,999)* | - | *(6)* |
| *Bosnia and Herzegovina* | *67,728* | *65,528* | *45,379* | *42,398* | *8,681* | *(1,827)* | *(1,405)* | *(1,221)* |
| *Bulgaria* | *1* | *53* | *(95)* | *(224)* | *(465)* | *(668)* | - | - |
| *Kosovo* | *31,977* | *31,121* | *21,244* | *17,797* | *6,132* | *3,699* | *(697)* | *(413)* |
| Western Europe | 3,600 | 1,835 | (723) | (7,793) | (9,242) | (123,640) | (9) | (9) |
| *Germany* | *72* | *171* | *1,107* | *317* | *(1,396)* | *(4,890)* | - | - |
| *Switzerland* | *3,528* | *1,664* | *(1,830)* | *(8,110)* | *(7,846)* | *(118,750)* | *(9)* | *(9)* |
| Czech Republic | 25 | 461 | (220) | (27,611) | (2,517) | (4,134) | (1) | (107) |
| **TOTAL** | **728,746** | **748,595** | **523,203** | **73,417** | **56,644** | **(1,791,851)** | **(4,390)** | **(87,941)** |

## 8.2. Related-party transactions

A number of banking transactions are entered into with related parties in the normal course of business. The volume of related-party transactions and the outstanding balances are as follows:

in EUR thousand

| NLB d.d. and NLB Group | Management Board and other Key management personnel | | Family members of the Management Board and other Key management personnel | | Companies in which members of Management board, Key management personnel or their family members have the control or joint control | | Supervisory Board | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Loans issued** | | | | | | | | |
| Balance at 1 January | 2,604 | 2,339 | 638 | 604 | 588 | 778 | 48 | 1 |
| Increase | 999 | 1,451 | 337 | 463 | 97 | 78 | 23 | 54 |
| Decrease | (1,501) | (1,186) | (628) | (429) | (234) | (268) | (53) | (7) |
| **Balance at 31 December** | **2,102** | **2,604** | **347** | **638** | **451** | **588** | **18** | **48** |
| Interest income | 54 | 62 | 9 | 20 | 14 | 16 | 2 | - |
| **Deposits received** | | | | | | | | |
| Balance at 1 January | 2,942 | 3,378 | 1,268 | 1,898 | 221 | 201 | 66 | 163 |
| Increase | 3,786 | 7,465 | 1,622 | 3,622 | 377 | 252 | 133 | 74 |
| Decrease | (4,770) | (7,901) | (1,754) | (4,252) | (399) | (232) | (84) | (171) |
| **Balance at 31 December** | **1,958** | **2,942** | **1,136** | **1,268** | **199** | **221** | **115** | **66** |
| Interest expense | (39) | (67) | (16) | (29) | - | - | (2) | (2) |
| **Debt securities in issue** | - | **4** | - | - | - | - | - | - |
| **Other financial assets** | - | - | **1** | - | - | - | - | - |
| **Other financial liabilities** | **3** | **3** | - | - | - | - | - | - |
| **Guarantees issued and Credit commitments** | **276** | **367** | **114** | **171** | **4** | **41** | **20** | **3** |
| Fee income | 13 | 15 | 7 | 8 | 7 | 6 | 1 | 1 |

in EUR thousand

| | NLB d.d. | | | NLB Group | | |
|---|---|---|---|---|---|---|
| | Ultimate parent | | Shareholders with significant influence | Ultimate parent | | Shareholders with significant influence |
| | 2014 | 2013 | 2013 | 2014 | 2013 | 2013 |
| **Loans issued** | | | | | | |
| Balance at 1 January | 212,343 | 223,610 | - | 221,565 | 233,983 | - |
| Increase | 22,516 | 8,902 | - | 22,778 | 9,197 | - |
| Decrease | (8,888) | (20,169) | - | (10,448) | (21,615) | - |
| **Balance at 31 December** | **225,971** | **212,343** | **-** | **233,895** | **221,565** | **-** |
| Interest income | 7,901 | 7,946 | - | 8,162 | 8,241 | - |
| **Loans received** | | | | | | |
| Balance at 1 January | - | - | 75,045 | - | - | 76,473 |
| Increase | - | - | 432 | - | - | 441 |
| Decrease | - | - | (75,477) | - | - | (76,914) |
| **Balance at 31 December** | **-** | **-** | **-** | **-** | **-** | **-** |
| Interest expense | - | - | (166) | - | - | (175) |
| **Deposits** | | | | | | |
| Balance at 1 January | - | - | 1,112 | - | - | 1,112 |
| Increase | - | - | 66,471 | - | - | 66,471 |
| Decrease | - | - | (67,583) | - | - | (67,583) |
| **Balance at 31 December** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Deposits received** | | | | | | |
| Balance at 1 January | 7 | 409,787 | - | 7 | 409,787 | - |
| Increase | 52,217,427 | 50,087,897 | - | 52,217,427 | 50,087,897 | - |
| Decrease | (51,842,332) | (50,497,677) | - | (51,842,332) | (50,497,677) | - |
| **Balance at 31 December** | **375,102** | **7** | **-** | **375,102** | **7** | **-** |
| Interest expense | (405) | (14,461) | - | (405) | (14,461) | - |
| **Investments in securities** | | | | | | |
| Balance at 1 January | 1,427,322 | 1,178,561 | - | 1,500,631 | 1,178,561 | - |
| Exchange difference on opening balance | - | - | - | (264) | - | - |
| Increase | 999,253 | 1,125,276 | - | 1,079,810 | 1,215,771 | - |
| Decrease | (1,434,981) | (891,400) | - | (1,507,343) | (908,790) | - |
| Valuation | 23,669 | 14,885 | - | 21,992 | 15,089 | - |
| **Balance at 31 December** | **1,015,263** | **1,427,322** | **-** | **1,094,826** | **1,500,631** | **-** |
| Interest income | 41,229 | 43,061 | - | 42,821 | 44,883 | - |
| **Other financial assets** | **1** | **1** | **-** | **305** | **339** | **-** |
| **Other financial liabilities** | **34** | **61** | **-** | **34** | **61** | **-** |
| Accrued income from issued financial instrument with characteristics of equity | - | 5,173 | - | - | 5,173 | - |
| **Guarantees issued and credit commitments** | **884** | **915** | **-** | **884** | **915** | **-** |
| Fee income | 12 | 63 | 3 | 12 | 63 | 3 |
| Other income | 5 | 107 | - | 5 | 107 | - |
| Other expense | (108) | (106) | - | (108) | (106) | - |
| Gains from financial assets not classified at fair value through profit or loss | - | - | - | - | 61 | - |

NLB d.d. discloses all transactions with the ultimate controlling party. For transactions with other government-related entities, the NLB Group discloses individually significant transactions.

in EUR thousand

| NLB d.d. | Total amount of significant transactions | | Number of significant transactions | |
|---|---|---|---|---|
| | 1.1. - 31.12.2014 | 1.1. - 31.12.2013 | 1.1. - 31.12.2014 | 1.1. - 31.12.2013 |
| Loans | 443,752 | 581,359 | 4 | 7 |
| Debt securities classified as loans and advances | 706,785 | 702,791 | 2 | 2 |
| Debt securities | 51,998 | 51,800 | 1 | 1 |
| Deposits and business accounts | 89,810 | 40,063 | 2 | 1 |
| Borrowings | 267,078 | 389,747 | 5 | 7 |
| Commitments to extend credit | 40,000 | 49,966 | 1 | 1 |
| | | | | |
| | 1.1. - 31.12.2014 | 1.1. - 31.12.2013 | | |
| Interest income from loans | 4,228 | 4,783 | | |
| Effects from net interest income and net valuation from debt securities classified as loans and receivables | 35,804 | (1,104) | | |
| Interest income from debt securities | 1,728 | 1,721 | | |
| Interest expense from deposits and business accounts | - | (805) | | |
| Interest expense from borrowings | (4,099) | (6,431) | | |
| Interest income from commitments to extend credit | 267 | 152 | | |

in EUR thousand

| NLB d.d. | Subsidiaries | | Associates | | Joint ventures | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Loans issued** | | | | | | |
| Balance at 1 January | 733,790 | 864,862 | 6,304 | 104,107 | 46,014 | 44,417 |
| Increase | 817,686 | 419,346 | 222 | 78,697 | 35,513 | 77,035 |
| Decrease | (942,728) | (550,418) | (4,584) | (176,500) | (51,105) | (75,438) |
| **Balance at 31 December** | **608,748** | **733,790** | **1,942** | **6,304** | **30,422** | **46,014** |
| Interest income | 23,998 | 33,579 | 108 | 4,961 | 2,171 | 2,250 |
| Impairment | 676 | (115,581) | 391 | (4,411) | 7,834 | (11,610) |
| **Deposits** | | | | | | |
| Balance at 1 January | 18,966 | 119,505 | 10,215 | 15,129 | - | - |
| Increase | 201,012 | 824,394 | 30,867 | 23,226 | - | - |
| Decrease | (207,650) | (924,933) | (41,082) | (28,140) | - | - |
| **Balance at 31 December** | **12,328** | **18,966** | **-** | **10,215** | **-** | **-** |
| Interest income | 314 | 1,318 | 136 | 304 | - | - |
| Impairment | 249 | 53,996 | 9 | (10,215) | - | - |
| **Deposits received** | | | | | | |
| Balance at 1 January | 62,034 | 81,352 | 10,362 | 13,611 | 5,167 | 8,181 |
| Increase | 9,301,805 | 9,023,899 | 68,534 | 83,119 | 20,271 | 50,994 |
| Decrease | (9,315,459) | (9,043,217) | (77,254) | (86,368) | (24,668) | (54,008) |
| **Balance at 31 December** | **48,380** | **62,034** | **1,642** | **10,362** | **770** | **5,167** |
| Interest expense | (133) | (427) | (39) | (253) | (25) | (221) |
| **Investments in securities** | | | | | | |
| Balance at 1 January | - | - | 490 | 1,071 | - | - |
| Increase | - | - | 24 | 52 | - | - |
| Decrease | - | - | (528) | (672) | - | - |
| Valuation | - | - | 14 | 39 | - | - |
| **Balance at 31 December** | **-** | **-** | **-** | **490** | **-** | **-** |
| Interest income | - | - | 24 | 52 | - | - |
| **Debt securities in issue** | **-** | **-** | **569** | **569** | **-** | **-** |
| Interest expense | - | - | (23) | (256) | - | (18) |
| **Derivatives** | | | | | | |
| Fair value | 589 | 499 | - | 30 | - | - |
| Contractual amount | 4,313 | 7,573 | - | 12,390 | - | - |
| **Other financial assets** | **625** | **556** | **25** | **456** | **11** | **215** |
| Impairment | 4 | (3) | 1 | (1) | - | - |
| **Other financial liabilities** | **4,086** | **3,691** | **1,078** | **992** | **134** | **53** |
| Interest expense | - | - | - | - | (134) | - |
| **Guarantees issued and credit commitments** | **76,332** | **40,318** | **42** | **2,002** | **20,446** | **3,725** |
| (Expense)/income provisons for guaranties and commitments | (495) | 20 | 24 | (15) | 2,413 | (2,734) |
| Received loan commitments and financial guarantees | 1,386 | 2,000 | - | 900 | - | - |
| Fee income | 3,496 | 2,221 | 250 | 490 | 3,205 | 3,014 |
| Fee expense | (112) | (116) | (10,135) | (9,537) | (1,225) | (1,227) |
| Other income | 2,705 | 366 | 3,694 | 4,104 | 526 | 80 |
| Other expense | (4,240) | (4,494) | (1,212) | (1,260) | - | (1) |

in EUR thousand

| NLB Group | Associates | | Joint ventures | |
|---|---|---|---|---|
| **Loans issued** | | | | |
| Balance at 1 January | 6,331 | 104,107 | 138,361 | 150,679 |
| Increase | 7,158 | 89,499 | 120,763 | 184,293 |
| Decrease | (11,547) | (187,275) | (154,534) | (196,611) |
| **Balance at 31 December** | **1,942** | **6,331** | **104,590** | **138,361** |
| Interest income | 108 | 4,961 | 6,406 | 7,612 |
| Impairment | 391 | (4,411) | 7,351 | - |
| **Loans received** | | | | |
| Balance at 1 January | 1,898 | 3,879 | - | - |
| Increase | 16 | 109 | - | - |
| Decrease | (1,914) | (2,090) | - | - |
| **Balance at 31 December** | **-** | **1,898** | **-** | **-** |
| Interest expense | (16) | (109) | - | - |
| **Deposits** | | | | |
| Balance at 1 January | 18,282 | 15,129 | - | - |
| Increase | 30,955 | 33,582 | - | - |
| Decrease | (49,237) | (30,429) | - | - |
| **Balance at 31 December** | **-** | **18,282** | **-** | **-** |
| Interest income | 172 | 374 | - | - |
| Impairment | 9 | (10,215) | - | - |
| **Deposits received** | | | | |
| Balance at 1 January | 10,362 | 13,611 | 6,548 | 14,626 |
| Exchange difference on openning balance | - | - | (75) | - |
| Increase | 68,534 | 83,119 | 165,194 | 245,268 |
| Decrease | (77,254) | (86,368) | (167,551) | (253,346) |
| **Balance at 31 December** | **1,642** | **10,362** | **4,116** | **6,548** |
| Interest expense | (39) | (253) | (39) | (286) |
| **Investments in securities** | | | | |
| Balance at 1 January | 490 | 1,071 | - | - |
| Increase | 24 | 52 | - | - |
| Decrease | (528) | (672) | - | - |
| Valuation | 14 | 39 | - | - |
| **Balance at 31 December** | **-** | **490** | **-** | **-** |
| Interest income | 24 | 52 | - | - |
| **Debt securities in issue** | **569** | **569** | **-** | **-** |
| Interest expense | (23) | (256) | - | (18) |
| **Derivatives** | | | | |
| Fair value | - | 30 | - | - |
| Contractual amount | - | 12,390 | - | - |
| **Other financial assets** | **25** | **456** | **11** | **220** |
| Impairment | 1 | (1) | - | - |
| **Other financial liabilities** | **1,078** | **992** | **134** | **53** |
| Interest expense | - | - | (134) | - |
| **Guarantees issued and credit commitments** | **42** | **2,002** | **42,831** | **14,867** |
| Income/(expense) provisons for guaranties and commitments | 24 | (15) | 201 | (2,728) |
| **Received loan commitments and financial guarantees** | **-** | **900** | **-** | **-** |
| Fee income | 250 | 490 | 3,305 | 3,157 |
| Fee expense | (10,135) | (9,537) | (1,225) | (1,227) |
| Other income | 3,694 | 4,104 | 526 | 80 |
| Other expense | (1,212) | (1,260) | - | (1) |

## Key management compensation

The performance of the key management is defined with the financial and non-financial. 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 d.d. or the NLB Group, the goals of organisational unit and personal goals of the employee performing special work.

The members of the Management Board are entitled to contractual gross salary considering limitations of the Slovenian and European legislation.

Simultaneously, under the contract, the members of the Management Board are entitled to the 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. Supervisory Board determines the performance bonuses with conclusion at the end of each business year. In accordance with the legislation the annual performance bonus can not in any case exceed 30 percent of gross salaries in business year of members of the Management Board. Additionally, the members of Management Board are entitled to performance bonuses only proportionally, depending on the actual employment in a bank in period for which the performance bonus relates. The first 50 percent of the performance bonus is due for payment within 15 days after the General Meeting of Shareholders, that voted on the use of previous year's profit and the discharge of the Management Board. Payment of the remaining 50 percent of the performance bonus is deferred.

Upon a conclusion of the General Meeting of Shareholders, the members of the Supervisory Board receive the payment for the performance and attendance, while the above amounts are limited to decision of the General Meeting of Shareholders and are in full compliance with the applicable recommendations of corporate governance.

in EUR thousand

| | Management Board | | Other Key management | | Supervisory Board | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Short-term benefits | 723 | 585 | 5,028 | 6,258 | 143 | 144 |
| Costs refunds | 8 | 7 | 137 | 169 | 30 | 29 |
| Long-term bonuses: | | | | | | |
| - severance pay | - | - | 51 | 42 | - | - |
| - post employment benefits | - | 2 | 4 | 161 | - | - |
| - jubilee bonuses | - | - | 4 | 2 | - | - |
| **TOTAL** | **731** | **594** | **5,224** | **6,632** | **173** | **173** |

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.

Post-employment benefits include additional pension insurance and annuity savings.

## Accrued earnings of individual members of the Management Board

in EUR

| | Member | | 2014 | 2013 |
|---|---|---|---|---|
| 1 | Janko Medja<br>2.10.2012 | Short-term benefits: | | |
| | | - gross salary and holiday allowance | 129,097 | 129,180 |
| | | - benefits and other short-term bonuses | 1,321 | 6,469 |
| | | Costs refunds | 3,230 | 2,533 |
| | | Long-term bonuses: | | |
| | | - post employment benefits | - | 705 |
| | | **Total** | **133,648** | **138,887** |
| 2 | Blaž Brodnjak<br>1.12.2012 | Short-term benefits: | | |
| | | - gross salary and holiday allowance | 129,097 | 129,180 |
| | | - benefits and other short-term bonuses | 4,519 | 5,540 |
| | | Costs refunds | 1,267 | 1,304 |
| | | Long-term bonuses: | | |
| | | - post employment benefits | - | 705 |
| | | **Total** | **134,883** | **136,729** |
| 3 | Andreas Burkhardt<br>18.9.2013 | Short-term benefits: | | |
| | | - gross salary and holiday allowance | 129,097 | 43,060 |
| | | - benefits and other short-term bonuses | 27,546 | 8,651 |
| | | Costs refunds | 1,212 | 398 |
| | | **Total** | **157,855** | **52,109** |
| 4 | Archibald Kremser<br>31.7.2013 | Short-term benefits: | | |
| | | - gross salary and holiday allowance | 129,097 | 64,590 |
| | | - benefits and other short-term bonuses | 21,025 | 9,773 |
| | | Costs refunds | 1,157 | 698 |
| | | **Total** | **151,279** | **75,061** |
| 5 | Nima Motazed<br>6.2.2013 - 17.12.2014 | Short-term benefits: | | |
| | | - gross salary and holiday allowance | 124,449 | 129,180 |
| | | - benefits and other short-term bonuses | 27,457 | 27,097 |
| | | Costs refunds | 1,150 | 1,291 |
| | | **Total** | **153,056** | **157,568** |
| 6 | Guy Snoeks<br>5.7.2011 - 31.3.2013 | Short-term benefits: | | |
| | | - gross salary and holiday allowance | - | 32,295 |
| | | - benefits and other short-term bonuses | | 789 |
| | | Costs refunds | - | 361 |
| | | Long-term bonuses: | | |
| | | - post employment benefits | - | 352 |
| | | **Total** | **-** | **33,797** |

## Accrued earnings of individual members of the Supervisory Board

in EUR

| | Member | | 2014 | 2013 |
|---|---|---|---|---|
| 1 | Peter Groznik<br>4.11.2014 | Session fees | 871 | - |
| | | Performance payment | 1,742 | - |
| 2 | France Arhar<br>12.6.2013 - 17.4.2014 | Session fees | 1,870 | 2,585 |
| | | Performance payment | 6,304 | 11,183 |
| 3 | Goran Katušin<br>12.6.2013 - 13.12.2014 | Session fees | 5,500 | 3,040 |
| | | Performance payment | 15,376 | 8,861 |
| 4 | Gorazd Podbevšek<br>12.6.2013 | Session fees | 5,500 | 2,860 |
| | | Performance payment | 17,606 | 8,027 |
| | | Costs refunds | 764 | 90 |
| 5 | Sergeja Slapničar<br>12.6.2013 | Session fees | 5,500 | 3,040 |
| | | Performance payment | 16,500 | 8,861 |
| | | Costs refunds | 1,248 | 480 |
| 6 | Tit A. Erker<br>12.6.2013 | Session fees | 5,500 | 3,040 |
| | | Performance payment | 16,500 | 8,861 |
| | | Costs refunds | 10,415 | 2,558 |
| 7 | Miha Košak<br>12.6.2013 | Session fees | 5,500 | 2,090 |
| | | Performance payment | 17,189 | 8,861 |
| | | Costs refunds | 17,307 | 3,387 |
| 8 | Uroš Ivanc<br>12.6.2013 | Session fees | 5,500 | 3,040 |
| | | Performance payment | 16,500 | 8,861 |
| | | Costs refunds | 189 | 164 |
| 9 | Klemen Vidic<br>27.6.2012 - 11.6.2013 | Session fees | - | 2,750 |
| | | Performance payment | - | 9,136 |
| | | Costs refunds | - | 428 |
| 10 | Riet Paula C L Docx<br>1.7.2009 - 10.1.2013 | Session fees | - | 275 |
| | | Performance payment | - | 473 |
| | | Costs refunds | - | 1,554 |
| 11 | Stephan Wilcke<br>27.6.2012 - 11.6.2013 | Session fees | - | 2,640 |
| | | Performance payment | - | 6,641 |
| | | Costs refunds | - | 2,603 |
| 12 | Miro Germ<br>27.6.2012 - 11.6.2013 | Session fees | - | 2,750 |
| | | Performance payment | - | 7,379 |
| | | Costs refunds | - | 704 |
| 13 | Sašo Cunder<br>27.6.2012 - 11.6.2013 | Session fees | - | 2,750 |
| | | Performance payment | - | 8,082 |
| | | Costs refunds | - | 83 |
| 14 | Marianne Okland<br>14.12.2012 - 11.6.2013 | Session fees | - | 2,750 |
| | | Performance payment | - | 6,204 |
| | | Costs refunds | - | 13,204 |
| 15 | Gael de Pontbriand<br>14.12.2012 - 11.6.2013 | Session fees | - | 2,200 |
| | | Performance payment | - | 6,204 |
| | | Costs refunds | - | 4,159 |

## Changes mean that we make good ideas, which we all agree with, come true.

In close collaboration between management and all employees, we implemented in 2014 the key part of NLB d.d. and the banking group transformation process, the largest part being modification of the distribution network and of our attitude towards customers.

Our team at the meeting on financial restructuring of Pivovarna Laško.

# Regulatory part

# 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 2014 and represent the actual and fair financial standing of the Bank and the NLB Group as well as their operating results in the year that ended on 31 December 2014.

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

**Management Board of NLB d.d.**

**Archibald Kremser**
Member of the
Management Board

**Andreas Burkhardt**
Member of the
Management Board

**Blaž Brodnjak**
Member of the
Management Board

**Janko Medja**
Chairman of the
Management Board

# Statement on Compliance with Article 42 of the Decree on the Conditions for Electronic Commerce and Electronic Signing

NLB d.d. provides a guarantee to its certifying agency AC NLB, which issues qualified digital certificates, in accordance with the provisions of Article 42 of the Decree on the Conditions for Electronic Commerce and Electronic Signing in the event of liability for damages with unencumbered property (the Bank's assets that are not pledged). As at 31.12.2014, the assets of the Bank totalled EUR 8,885.7 million, and the assets pledged for liabilities amounted to EUR 309.2 million; in accordance with Article 27 of the Decree, unencumbered assets should amount to a minimum of EUR 625,938.91 to provide for the certifier's liability.

# Authorisation for financial services

NLB d.d. has an authorisation to perform banking services pursuant to Article 7 of the Banking Act. Banking services are the acceptance of deposits 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.

**The Bank may perform the following mutually recognised financial services, pursuant to Article 10 of the ZBan-1:**

1. acceptance of deposits;
2. granting of credits, including:
   - consumer credits,
   - mortgage credits,
   - factoring (with or without recourse),
   - financing of commercial transactions, including forfeiting;
4. payment services;
5. issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in the service under point 4 of this Article;
6. issuance of guarantees and other commitments;
7. trading for own account or for the account of customers in:
   - money market instruments,
   - foreign exchange, including currency exchange transactions,
   - financial futures and options,
   - exchange and interest-rate instruments,
   - transferable securities;
8. participation in the issuance of securities and services related to such issues;
9. advice to undertakings on capital structure, industrial strategy and related questions and advice as well as services related to mergers and the purchase of undertakings;
10. money broking on inter-bank markets;
11. advice on portfolio management;
12. safekeeping of securities and other services related to safekeeping of securities;
13. credit reference services: collection, analysis and provision of information on creditworthiness;
14. renting of safe deposit boxes; and
15. investment services and operations and ancillary investment services from paragraph (1) of Article 10 of the ZTFI.

The Bank may perform the following additional financial services pursuant to Article 11 of the ZBan-1:
1. insurance brokerage in accordance with the law governing the insurance business;
4. custodian services in accordance with the law governing investment funds and management companies;
5. credit brokerage in consumer and other credits.

# NLB d.d. Corporate Governance Statement

Pursuant to the provision of paragraph 5 of Article 70 of the Companies Act (Official Gazette of the Republic of Slovenia, No. 42/2006 and further), Nova Ljubljanska banka d.d., Ljubljana (hereinafter referred to as NLB d.d.) hereby declares in the Corporate Governance Statement as part of the business section of the Annual Report that in its work and business operations the Bank complies with the following:

## 1. REFERENCE TO BOTH CODES, RECOMMENDATIONS AND OTHER INTERNAL CORPORATE GOVERNANCE RULES AND REGULATIONS

In 2014 NLB d.d. complied with the following standards as recommended for internal and business operations:
- Corporate Governance Code, 8.12.2009, available at http://www.ljse.si;
- Corporate Governance Code for Companies with State Capital Investments of the Republic of Slovenia, 15.5.2013, http://www.so-druzba.si and
- Recommendations of the Manager of Indirect and Direct State Capital Investments of the Republic of Slovenia, 12.4.2013, available at http://www.sdh.si.

Apart from the Corporate Governance Code, NLB d.d. shall in 2015 also comply with the following:
- Corporate Governance Code for Companies with State Capital Investments, 19.12.2014, available at the website of the Slovenian Sovereign Holding d.d. (Slo. abbrev. SDH) http://www.sdh.si and
- Recommendations and Expectations of the Slovenian Sovereign Holding, available at the website of Slovenian Sovereign Holding, http://www.sdh.si , adopted on 19.12.2014.

In the part referring to corporate governance, in 2014 NLB d.d. also complied with the Catalogue of Commitments given by the Republic of Slovenia to the European Commission with regard to the state aid proceedings (publicly available versions of 18.12.2013 available at the website of the European Commission at http://ec.europa.eu/competition/state_aid/cases/245268/245268_1518816_267_7.pdf).

In 2015 NLB d.d. with regard to the corporate governance of NLB d.d. and the NLB Group shall comply with NLB d.d. Corporate Governance Policy (adopted by the Supervisory Board of NLB d.d. on 12.12.2014) and the Governance and Monitoring Policy of the NLB Group (9th issue, September 2014).

## 2. NLB d.d. GOVERNANCE DEVIATES FROM THE FOLLOWING PROVISIONS:

Individual deviations from the aforementioned Codes and recommendations are together with their explanations disclosed below:

### a) Corporate Governance Code

**Item 8:** In February 2015 NLB d.d. published on its website statements of independence relating to members of the Supervisory Board and will continue to publish them in the same manner in the future.

**Item 11:** NLB d.d. has not appointed a special Secretary for the Supervisory Board; his powers are in the domain of specialised departments. All activities foreseen for the Secretary of the Supervisory Board are fully provided for by the Bank.

**Item 12:** According to our assessment, the Bank is not adequately compensating the supervisors given the responsibility they take as they assume this position, and given the penalty to be imposed as part of the new banking legislation.

**Items 16 and 16.1:** NLB d.d. does not comply with the provision proposed by the Code because the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (Slo. abbrev. ZPPOGD) is limiting the amount of remuneration payable to the Management Board, at the same time having presented an obstacle in the past seriously hindering the recruitment and retention of the right people. For that reason, the Bank is going to further strive for a public debate and for lifting of the aforementioned restrictions.

**Item 20.4:** NLB d.d. does not comply with the provision proposed by the Code in such a way that General Assembly dates are not published in advance. The rules referring to how General Assemblies are to be convened are stipulated by the Statute of NLB d.d.

**Item 22.7:** NLB d.d. discloses legally required data, as indicated by the Annual Report of the NLB Group. In accordance with the provisions of the Statute and the Companies Act (Slo. abbrev. ZGD-1), NLB d.d. informs the shareholders of remuneration paid to members of the management and supervisory bodies in the previous business year at the General Assembly meeting, when the distributable profit is decided and allocated, however the net remuneration value per Management and Supervisory Board member is not specifically disclosed in the Annual Report as we only disclose their gross receipts (which are presented in both the financial section and the business section of the Annual Report).

## b) Corporate Governance Code for Companies with State Capital Investments of the Republic of Slovenia

**Item 51:** According to our assessment, the provision of the Code referring to the same market conditions applicable to NLB d.d. as to other non-state-owned companies is not complied with since NLB d.d. is subjected to a number of restrictions and additional requirements that do not apply to privately owned companies (limited remuneration for management bodies and the mandatory public disclosure of certain confidential information and data pertaining to the Public Information Access Act).

**Item 70:** NLB d.d. has a Remuneration and Nomination Committee acting also as an HR committee, although there is no permanent external member to the Committee, as its permanent members are at the same time members of the Supervisory Board. Regardless of the above, the Committee can make a proposal to engage an external expert if deemed necessary, reasonable and required for the Bank's performance.

**Item 74:** With regard to the explanation pertaining to the proposed member of the Supervisory Board, NLB d.d. Supervisory Board complied with the provisions of the Companies Act (ZGD-1). From the establishment of the Slovenian Sovereign Holding Act (Slo. abbrev. ZSDH-1), the Bank shall also comply with the provisions of the aforementioned law, saying that a candidate for a Supervisory Board member is expected to submit to the General Assembly prior to their decision-making a statement on complying with conflicts of interest.

**Item 75:** Adequate selection procedures referring to Supervisory Board members were conducted in 2014 by the Remuneration and Nomination Committee of NLB d.d. Supervisory Board acting as a consulting body of the Supervisory Board.

**Item 87:** The Bank has so far not confirmed a Management Board Members Remuneration Policy at the General Assembly. In accordance with the provisions of the Slovenian Sovereign Holding Act (ZSDH-1), NLB d.d. Management and Supervisory Board shall strive in the future to have a Management Board Members Remuneration Policy confirmed by shareholders at the General Assembly.

**Item 89:** NLB d.d. does not comply with the proposed provision of the Code because the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) is limiting the amount of remuneration payable to the Management Board, at the same time having presented an obstacle in the past seriously hindering the recruitment and retention of the right people. For that reason, the Bank is going to further strive for a public debate and for lifting of the aforementioned restrictions.

**Item 92:** NLB d.d. discloses the legally required data, as indicated by the Annual Report of the NLB Group. In accordance with the provisions of NLB d.d. Statute and the Companies Act (Slo. abbrev. ZGD-1), NLB d.d. informs the shareholders of remuneration paid to members of the management and supervisory bodies in the previous business year at a General Assembly meeting, when the distributable profit is decided.

**Item 93:** This has not been specifically implemented by NLB d.d. so far since the CEO has not specifically presented to the General Assembly an adequacy assessment pertaining to the remuneration of Management Board members; however, the Bank has expressed its views on this topic in another suitable manner.

## c) Recommendations of the Manager of Indirect and Direct State Capital Investments of the Republic of Slovenia

In accordance with Item 21 of the Corporate Governance Code for Companies with State Capital Investments of the Republic of Slovenia, NLB d.d. shall also make a declaration regarding the recommendations adopted in the Corporate Governance Code for Companies with State Capital Investments of the Republic of Slovenia by the Slovenian Sovereign Holding.

### Recommendation No. 2: Compensation of External Members of Supervising Committees and Other External Experts for Performing Supervising Activities

NLB d.d. does not comply with Item 2.1. of Recommendation No. 2 because it does not have special rules of procedure for external members of supervising committees and other external experts regulating the amount of their compensation, although this element is stipulated in the contract concluded with each member, which is in accordance with the aforementioned recommendation.

### Recommendation No. 7: Transparent Procedures for Closing Business Relating to Company Expenses (procurement of goods and services, donations and sponsorships)

The Public Procurement Act does not apply to the Bank because it does not comply with the subjective criteria of the applicability of the law. For the sake of transparency, business efficiency and above all the principle of equal treatment of potential providers and services, NLB d.d. adopted internal rules and procedures – Instructions for selecting a provider of goods and services in NLB d.d. (Procurement Policy, Procurement and Process Manual) as of 22.10.2013. The aforementioned rules and procedures enable NLB d.d. to comply with the underlying objective of the recommendations. In accordance with the Public Information Access Act, NLB d.d. publishes information on the website referring to sponsorships, donations and other legal transactions, from the effective date, i.e. 17.4.2014, in the scope and manner stipulated by the law.

### Recommendation No. 8.7: Labour Cost Optimisation in 2014

NLB d.d. acts entirely in accordance with the regulations, but the Recommendation is not completely implemented because data pertaining to NLB d.d. and the NLB Group have not been published.

### Recommendation No. 11: Achieving the Quality and Excellence of Operations in Companies / Groups

Last year NLB d.d. did not comply with this recommendation completely. In October 2014 a proposal was drafted by the EFQM-NLB Project, planning to train a team of internal reviewers in 2015 and 2016 to assess our business excellence and the first self-evaluation done by NLB d.d. according to the EFQM model. The final project result is the first self-evaluation report, which on one hand is expected to indicate that the SOD's recommendation has been complied with and on the other bringing considerable added value by containing clear information regarding the excellence level that will have been reached with recommendations relating to required improvements of each of the criteria factored into the EFQM model. In the future, the EFQM model shall serve as a basis for further activities aiming at constant enhancements in ensuring quality and excellence.

### Recommendations No. 12.7 and 12.9: General Assembly

We do not comply with Item 12.7 because the Annual Report does not specify expectations from the Slovenian Sovereign Holding regarding the company's results.

We partly also do not comply with Item 12.9 because we do not disclose specifically in the Annual Report the net remuneration per Management and Supervisory Board member, but only their gross receipts (which are disclosed in both the financial and business sections of the Annual Report).

## 3. MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

NLB d.d. is subject to the provisions of the Companies Act (ZGD-1) and also the provisions of the Banking Act regulating among other things the mandatory requirement for the Bank to set up and maintain an appropriate system of internal controls and risk management. The Bank of Slovenia, as a supervisor of the Bank, also issues special implementing regulations on this topic, in which NLB d.d. complies with currently valid regulations. The Bank also complies with the commitments given to the European Commission based on a Committee's decision dated 18.12.2013 pertaining to the state aid proceedings SA.33229 (2012/C) – Restructuring of NLB d.d. – Slovenia. As a consequence, NLB d.d. strives to maintain and deliver a solid and reliable governance system, consisting of the following:

- A clear organisation layout with precisely defined, transparent and consistent internal relations with regard to responsibility;

- efficient procedures expected to identify, measure, assess, manage and monitor risks that the Bank is or could be exposed to in its operations;
- immediate actions taken by relevant units to rectify potential irregularities, especially in credit risk management; and
- an appropriate system of internal controls, which includes precise sound accounting procedures (reporting, working procedures, responsibilities, as well as automatic and manual controls at all stages of the accounting process).

Apart from the above, NLB d.d. has in compliance with the law also a specialised Internal Audit unit, which in line with its powers conducts audits, makes proposals, prepares reports, and reports on the work done to the General Assembly.

NLB d.d. pays special attention to the system of internal controls and risk management within the NLB Group and its member companies. The corporate governance in the Group is presented separately in The NLB Group Governance chapter, in the sub-section on Corporate Governance of the NLB Group on page 87. The risk profile of the NLB Group in connection with the business strategy is specifically presented under the Risk management section in the financial part of the Annual Report on page 170.

## 4. DATA RELATING TO THE TAKEOVER ACT

You can find all the information and data relating to the Takeover Act in the *Corporate Governance* chapter, the sub-section on the *Shareholders Assembly* on page 80.

## 5. DATA RELATING TO ACTIVITIES AND KEY POWERS OF THE GENERAL ASSEMBLY AND DESCRIPTION OF THE SHAREHOLDERS' RIGHTS AND HOW THEY CAN BE EXERCISED

All data relating to the operations and key powers of the General Assembly and a description of the shareholders' rights are available in the section *Corporate Governance*; subsection *Shareholders Assembly* on page 80.

## 6. DATA RELATING TO THE COMPOSITION AND OPERATIONS OF THE MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

All data relating to the composition and operations of the management and supervisory bodies and their committees and the remuneration of management and supervisory bodies are available in the section *Corporate Governance*; subsections *Supervisory Board and Management Board*, on pages 81 and 84.

Ljubljana, 20.4.2015

**Supervisory Board of NLB d.d.**

**Gorazd Podbevšek**
President of Supervisory Board

**Management Board of NLB d.d.**

**Andreas Burkhardt**
CRO

**Archibald Kremser**
CFO

**Blaž Brodnjak**
CMO

**Janko Medja**
CEO

# Risk and Capital Management

**(disclosures in accordance with Pillar 3 of the Basel standards)**

# Table of contents

# 1. Introduction

The European legislation on capital requirements, based on the Basel II and III principles, introduced among other requirements regarding the transparency of bank operations. European banks are bound to disclose certain information which should provide sufficient information for potential investors about the risks assumed by banks in their operations.

In the past years in Slovenia, the area of compulsory disclosures in the field of risks and capital adequacy was regulated by the Regulation on Disclosures by Banks and Savings Banks. With the adjustment of the European legislation on capital requirements to the Basel III principles, in 2014 these requirements became part of the European Regulation on prudential requirements for credit institutions and investment firms (Regulation (EU) 575/2013, Part Eight), which is directly binding on all member states.

In accordance with the capital legislation, NLB d.d. has the position of an "EU parent bank" and is therefore obliged to disclose information on a consolidated basis.

The table in Chapter 10 herein presents the entire list of the necessary disclosures by article of the Regulation, together with the indication of the part of the Annual Report in which the relevant contents are disclosed.

The information about values presented in the accounting part of the Annual Report is based on a different consolidation method than envisaged by the Regulation for data disclosure. Nevertheless, some data are not disclosed according to both consolidation methods as, owing to the immateriality of the differences (shown in the table under Chapter 2), their duplication would not improve the transparency in terms of the risks involved. This concerns the following information:
- disclosures in relation to exposures in equities not included in the trading book (Article 447),
- disclosures in relation to impairments of financial assets measured at amortised cost (Article 442).

Some of the prescribed disclosures are not relevant for the NLB Group as they are linked with different approaches to the calculation of capital requirements, or as they concern transactions that the NLB Group is currently not carrying out, or disclosures whose publication is only envisaged in the coming years.

The NLB Group uses the following approaches to the calculation of capital requirements:
- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – basic indicator approach.

Thus, the disclosures relating to other approaches not used by the NLB Group are not relevant to it:
- disclosures related to the IRB approach for credit risk (Articles 452 and 438(d)),
- disclosures related to the advanced measurement approach for operational risk (Article 454),
- disclosures related to internal models for the calculation of market risk capital requirements (Articles 455).

In addition, some other disclosures are also not relevant for the NLB Group as they concern types of transactions that the NLB Group is currently not carrying out, or for other reasons (consolidation method that is not used, disclosures only upon request of the competent authority etc.):
- disclosures related to securitisation (Article 449),
- disclosures related to credit derivatives (Article 439(g, h and i) and 453(d)),
- disclosures related to on- and off- balance sheet netting (Article 453(a)),
- disclosures related to the application of the provisions of Articles 7 and 9 of the Regulation (concerning the application of prudential requirements on an individual basis and the individual consolidation method) (Article 436(e)),
- disclosures related to the result of the institution's internal capital adequacy assessment process (Article 438(b)),
- disclosures related to capital instruments issued prior to 31/12/2011 which, in accordance with the new legislation, are no longer eligible to be included in the capital and must be gradually excluded from the capital in the transitional period (Article 492(4)).

Some disclosures envisaged in the Regulation will enter into force with a delay and are not relevant for 2014:
- disclosures related to capital buffers (Articles 440 and 441),
- disclosures related to leverage (Article 451).

The figures in this part of the Annual Report were prepared based on the COREP reports submitted to the supervisory authorities. As amounts are rounded off to thousand euros, minimum deviations can occur in the sums of individual categories and between tables.

# 2. Scope of application

(Articles 436(a, b, c and d) and partly Article 437(a) of Regulation (EU) no. 575/2013)

In accordance with the capital legislation, NLB d.d. has the position of an "EU parent bank" and is therefore obliged to disclose information regarding risk and capital management (pursuant to part Eight of Regulation (EU) no. 575/2013) only on a consolidated basis. Disclosures are thus prepared and published for the NLB Group, using prudential consolidation pursuant to the provisions of Regulation (EU) no. 575/2013, Part One, Title II, Chapter 2.

The differences between consolidation for prudential purposes and consolidation for accounting purposes (pursuant to the IFRS) lie in the list of companies based on activity and method of consolidation:

- List of companies:
  **The consolidation for accounting purposes** comprises all subsidiaries (i.e. entities which are directly or indirectly directed or controlled by the Bank or the banking group), all associated companies (in which it directly or indirectly holds between 20% and 50% of voting rights, has a material impact, but does not control them), and jointly controlled companies (i.e. jointly controlled by the NLB Group, based on contractual agreement). From among the subsidiary, associated and jointly controlled companies, the **prudential consolidation** only includes credit institutions, financial institutions, ancillary services undertakings and asset management companies (in accordance with the definitions under Article 4 of Regulation (EU) no. 575/2013). As regards the NLB Group, this means that prudential consolidation does not include companies operating in the area of insurance.
- Consolidation method:
  In consolidation for accounting purposes, subsidiaries are consolidated according to the method of full consolidation, while associated and jointly controlled companies are consolidated according to the capital method. Prudential consolidation requires different treatment of jointly controlled companies, which have to be consolidated according to the proportional method.

The table below shows the list of NLB Group companies (subsidiaries, associated and jointly controlled companies), their main characteristics and consolidation method. More details about individual companies are given in the accounting part of the Annual Report under Chapter 5.12.

| | Nature of business | NLB Group's voting rights | Country of incorporation | Accounting consolidation method | Prudential consolidation method |
|---|---|---|---|---|---|
| **Subsidiaries:** | | | | | |
| LHB AG, Frankfurt | Finance | 100.00% | Republic of Germany | Full | Full |
| LHB Trade d.o.o. - u likvidaciji, Zagreb | Trade | 100.00% | Republic of Croatia | Full | Full |
| NLB Tutunska Banka a.d., Skopje | Banking | 86.97% | Republic of Macedonia | Full | Full |
| NLB Montenegrobanka a.d., Podgorica | Banking | 98.00% | Republic of Montenegro | Full | Full |
| NLB Banka a.d., Belgrade | Banking | 99.997% | Republic of Serbia | Full | Full |
| Convest d.o.o., Novi Sad | Finance | 100.00% | Republic of Serbia | Full | Full |
| NLB Banka d.d., Tuzla | Banking | 96.32% | Republic of Bosnia and Herzegovina | Full | Full |
| NLB Razvojna banka a.d., Banja Luka | Banking | 99.85% | Republic of Bosnia and Herzegovina | Full | Full |
| NLB Prishtina sh.a., Pristhina | Banking | 81.21% | Republic of Kosovo | Full | Full |
| NLB Leasing d.o.o., Ljubljana | Finance | 100.00% | Republic of Slovenia | Full | Full |
| NLB Leasing Sofija E.o.o.d., Sofia | Finance | 100.00% | Republic of Bulgaria | Full | Full |
| Optima Leasing d.o.o., Zagreb | Finance | 99.97% | Republic of Croatia | Full | Full |
| PRO-REM d.o.o., Ljubljana | Real estate | 100.00% | Republic of Slovenia | Full | Full |
| OL Nekretnine d.o.o., Zagreb | Real estate | 100.00% | Republic of Croatia | Full | Full |
| NLB Leasing Podgorica d.o.o., Podgorica | Finance | 100.00% | Republic of Montenegro | Full | Full |
| NLB Leasing d.o.o., Belgrade | Finance | 100.00% | Republic of Serbia | Full | Full |
| NLB Leasing d.o.o., Sarajevo | Finance | 100.00% | Republic of Bosnia and Herzegovina | Full | Full |
| NLB Lizing d.o.o.e.l., Skopje | Finance | 100.00% | Republic of Macedonia | Full | Full |
| NLB InterFinanz AG, Zürich | Finance | 100.00% | Switzerland | Full | Full |
| NLB InterFinanz Praha s.r.o., Prague | Finance | 100.00% | Czech Republic | Full | Full |
| NLB InterFinanz d.o.o., Belgrade | Finance | 100.00% | Republic of Serbia | Full | Full |
| NLB Factoring a.s. "u likvidaci", Ostrava | Finance | 100.00% | Czech Republic | Full | Full |
| NLB Skladi d.o.o., Ljubljana | Finance | 100.00% | Republic of Slovenia | Full | Full |
| NLB Nov penziski fond a.d., Skopje | Insurance | 100.00% | Republic of Macedonia | Full | - |
| NLB Crna gora d.o.o., Podgorica | Real estate | 100.00% | Republic of Montenegro | Full | Full |
| FIN-DO d.o.o., Domžale | Real estate | 100.00% | Republic of Slovenia | Full | Full |
| NLB Propria d.o.o., Ljubljana | Real estate | 100.00% | Republic of Slovenia | Full | Full |
| NLB Srbija d.o.o., Belgrade | Real estate | 100.00% | Republic of Serbia | Full | Full |
| CBS Invest d.o.o., Sarajevo | Real estate | 100.00% | Republic of Bosnia and Herzegovina | Full | Full |
| Prospera plus d.o.o., Ljubljana | Tourist and catering trade | 100.00% | Republic of Slovenia | Full | Full |
| **Associates:** | | | | | |
| Bankart d.o.o., Ljubljana | Card processing | 39.44% | Republic of Slovenia | Equity | Equity |
| Skupna pokojninska družba d.d., Ljubljana | Insurance | 28.13% | Republic of Slovenia | Equity | - |
| Kreditni biro SISBON d.o.o., Ljubljana | Credit bureau | 29.68% | Republic of Slovenia | Equity | Equity |
| ARG - Nepremičnine d.o.o., Horjul | Property | 75.00% | Republic of Slovenia | Equity | Equity |
| **Joint ventures:** | | | | | |
| NLB Vita d.d., Ljubljana | Insurance | 50.00% | Republic of Slovenia | Equity | - |
| Prvi faktor Group, Ljubljana | Finance | 50.00% | Republic of Slovenia | Equity | Proportional |

None of the investments of the NLB Group in subsidiary, associated and jointly controlled companies represents a deduction from capital. The total amount of investments that could potentially become deductions from capital is relatively low and remains under the statutory thresholds.

Below a comparison is given of financial statements of the NLB Group according to both consolidation methods.

## Balance sheet of the NLB Group as at 31.12.2014 – comparison of the two consolidation methods

in EUR thousand

| | Accounting consolidation | Prudential consolidation | Difference |
|---|---|---|---|
| Cash, cash balances at central banks and other demand deposits at banks | 1,127,527 | 1,128,449 | -922 |
| Trading assets | 138,218 | 138,218 | 0 |
| Financial assets designated at fair value through P&L | 6,510 | 6,510 | 0 |
| Available for sale financial assets | 1,672,952 | 1,671,194 | 1,758 |
| Derivatives - hedge accounting | 2,966 | 2,966 | 0 |
| Loans and advances | 7,758,226 | 7,773,200 | -14,974 |
| Debt securities | 706,785 | 706,785 | 0 |
| Loans and advances to banks | 271,340 | 269,674 | 1,666 |
| Loans and advances to customers | 6,708,332 | 6,714,657 | -6,325 |
| Other financial assets | 71,769 | 82,084 | -10,315 |
| Held to maturity financial assets | 711,648 | 711,648 | 0 |
| FV changes of hedged items in portfolio hedge of IRR | 912 | 912 | 0 |
| Non-current assets classified as held for sale | 5,643 | 5,643 | 0 |
| Property and equipment | 215,175 | 215,267 | -92 |
| Investment property | 41,472 | 42,258 | -786 |
| Intangible assets | 42,751 | 42,700 | 51 |
| Investments in subsidiaries, associates and joint ventures | 37,525 | 14,354 | 23,171 |
| Current income tax assets | 1,898 | 2,601 | -703 |
| Deferred income tax assets | 5,947 | 6,165 | -218 |
| Other assets | 140,119 | 139,814 | 305 |
| **Total assets** | **11,909,489** | **11,901,899** | **7,590** |
| Trading liabilities | 43,758 | 43,758 | 0 |
| Financial liabilities designated at fair value through P&L | 4,701 | 4,701 | 0 |
| Derivatives - hedge accounting | 43,985 | 43,985 | 0 |
| Financial liabilities measured at amortized cost | 10,306,615 | 10,352,992 | -46,377 |
| Deposits from banks and central banks | 62,334 | 62,334 | 0 |
| Borrowings from banks and central banks | 714,722 | 761,804 | -47,082 |
| Due to customers | 8,943,832 | 8,942,847 | 985 |
| Borrowings from other customers | 136,660 | 136,660 | 0 |
| Debt securities in issue | 359,853 | 359,853 | 0 |
| Subordinated liabilities | 17,328 | 17,328 | 0 |
| Other financial liabilities | 71,886 | 72,166 | -280 |
| FV changes of the hedged items in portfolio hedge of IRR | 0 | 0 | 0 |
| Provisions | 126,974 | 98,904 | 28,070 |
| Current income tax liabilities | 1,780 | 1,684 | 96 |
| Deferred income tax liabilities | 315 | 278 | 37 |
| Other liabilities | 12,066 | 12,133 | -67 |
| **Total liabilities** | **10,540,194** | **10,558,435** | **-18,241** |
| Share capital | 200,000 | 200,000 | 0 |
| Share premium | 871,378 | 871,378 | 0 |
| Other equity instruments issued | 0 | 0 | 0 |
| Accumulated other comprehensive income | 36,485 | 26,226 | 10,259 |
| Profit reserves | 13,522 | 13,522 | 0 |
| Retained earnings | 221,676 | 206,346 | 15,330 |
| Treasury shares | 0 | 0 | 0 |
| Non-controlling interests | 26,234 | 25,993 | 241 |
| **Total equity** | **1,369,295** | **1,343,464** | **25,831** |
| **Total liabilities and total equity** | **11,909,489** | **11,901,899** | **7,590** |

Income statement of the NLB Group as at 31.12.2014 – comparison of the two consolidation methods

in EUR thousand

| | Accounting consolidation | Prudential consolidation | Difference |
|---|---|---|---|
| Interest and similar income | 497,975 | 503,678 | -5,703 |
| Interest and similar expense | -167,969 | -170,329 | 2,360 |
| **Net interest income** | **330,006** | **333,349** | **-3,343** |
| Dividend income | 1,778 | 1,778 | 0 |
| Fee and commission income | 192,841 | 190,341 | 2,500 |
| Fee and commission expenses | -53,212 | -52,809 | -403 |
| **Net fee and commission income** | **139,629** | **137,532** | **2,097** |
| Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss | 37,413 | 37,413 | 0 |
| Gains less losses from financial assets and liabilities held for trading | 3,620 | 3,619 | 1 |
| Gains less losses from financial assets and liabilities designated at fair value through profit or loss | 60 | 60 | 0 |
| Fair value adjustments in hedge accounting | -982 | -982 | 0 |
| Foreign exchange translation gains less losses | -1,776 | -894 | -882 |
| Gains less losses on derecognition of assets other than held for sale | -1,526 | -1,519 | -7 |
| Other operating income | 29,543 | 29,663 | -120 |
| Other operating expenses | -23,968 | -24,059 | 91 |
| Administrative expenses | -267,727 | -269,345 | 1,618 |
| Depreciation and amortization | -35,776 | -35,796 | 20 |
| Provisions for other liabilities and charges | -24,378 | 4,327 | -28,705 |
| Impairment charge | -117,061 | -147,711 | 30,650 |
| Share of the profit or loss of investments in subsidiaries, joint ventures and associates | 3,106 | 810 | 2,296 |
| Net losses from non-current assets held for sale | -2,762 | -2,762 | 0 |
| **Profit or loss before income tax** | **69,199** | **65,483** | **3,716** |
| Income tax | -4,131 | -4,683 | 552 |
| **Profit or loss for the year** | **65,068** | **60,800** | **4,268** |
| **Attributable to owners of the parent** | **62,336** | **58,111** | **4,225** |
| Attributable to Non-controlling interests | 2,732 | 2,689 | 43 |

In the NLB Group, there are no major impediments to the prompt transfer of capital or repayment of liabilities between the parent undertaking and its subsidiaries. In the case of a capital transfer, it is necessary to follow the provisions regarding the minimum capital in accordance with the legislative provisions applying to individual members, and prior to any transfer it is necessary to notify the local regulator.

All subsidiaries in the NLB Group not included in the prudential consolidation met the minimum capital requirement as at 31.12.2014. The total amount of capital deficit was EUR 0.

# 3. Capital (own funds)

## 3.1. Capital adequacy

(Article 492(2) of Regulation (EU) no. 575/2013)

At the beginning of 2014 new legislation entered into force requesting banks and banking groups within the scope of regulatory calculations (Pillar 1) to meet three capital ratios, and not just one, as previously. Capital is divided into three main elements, differing according to their quality in terms of their ability to cover risks, and the system of three minimum ratios ensures an appropriate qualitative structure of these elements, i.e. their mutual proportions.

The minimum ratios that banks must achieve within the scope of the Basel Pillar 1 (regulatory requirements) are the following[17]:
- Common Equity Tier 1 ratio: 4.5%,
- Tier 1 ratio: 6%,
- Total capital ratio: 8%.

Because of the gradual introduction of the new legislation, the requirements for 2014 are somewhat lower:
- Common Equity Tier 1 ratio: 4%,
- Tier 1 ratio: 6%,
- Total capital ratio: 8%.

The NLB Group calculates capital and capital ratios fully in line with the EU legislation, which also includes discretionary measures prescribed by the Bank of Slovenia.

In 2014, the ratios of the NLB Group exceeded all of the above minimum requirements, as well as the requirements within the scope of Pillar 2 (SREP).

Capital adequacy of the NLB Group:

in EUR thousand

| | 31.12.2014 | Estimation 1.1.2014 | 31.12.2013* |
|---|---|---|---|
| Paid up capital instruments | 200,000 | 200,000 | 200,000 |
| Share premium | 871,378 | 871,378 | 871,378 |
| Retained earnings - from previous years | 148,235 | 148,262 | 0 |
| Current result | 58,111 | 0 | 0 |
| Accumulated other comprehensive income | -4,663 | -2,676 | -672 |
| Other reserves | 13,522 | 13,522 | 159,515 |
| Minority interest | 0 | 0 | 24,048 |
| Prudential filters: Cash flow hedge reserve | 533 | 424 | 0 |
| Prudential filters: Additional Valuation Adjustments (AVA) | -3,535 | -3,723 | 0 |
| (-) Goodwill | -3,529 | -3,713 | -3,713 |
| (-) Other intangible assets | -39,171 | -50,960 | -50,960 |
| (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | -802 | -1,789 | 0 |
| (-) CET1 instruments of financial sector entities where the institution has a significant investment | 0 | 0 | -3,960 |
| **COMMON EQUITY TIER 1 CAPITAL (CET1)** | **1,240,078** | **1,170,725** | **1,195,636** |
| Additional Tier 1 capital | 0 | 0 | 0 |
| **TIER 1 CAPITAL** | **1,240,078** | **1,170,725** | **1,195,636** |
| Tier 2 capital | 0 | 0 | 22,930 |
| **TOTAL CAPITAL** | **1,240,078** | **1,170,725** | **1,218,566** |
| RWA for credit risk | 5,875,105 | 5,941,005 | 6,593,705 |
| RWA for market risks | 141,001 | 176,430 | 249,107 |
| RWA for CVA risk | 8,338 | 3,311 | 0 |
| RWAfor operational risk | 1,013,538 | 1,162,568 | 1,162,568 |
| **TOTAL RISK EXPOSURE AMOUNT (RWA)** | **7,037,982** | **7,283,314** | **8,005,380** |
| Common Equity Tier 1 Ratio | 17.6% | 16.1% | 14.9%** |
| Tier 1 Ratio | 17.6% | 16.1% | 14.9% |
| Total Capital Ratio | 17.6% | 16.1% | 15.2% |

* Calculation in accordance with the old (CRD II) legislation, shown in categories in accordance with the new (CRD IV) legislation.
** For 2013, Core Tier 1 ratio is shown in this line.

[17] Within the scope of Basel Pillar 2, supervisory institutions may prescribe higher requirements regarding these ratios for an individual bank.

Because of the amended legislation, both calculations are presented for the end of 2013: the official one, made in accordance with the old legislation, and the new one, assessed subsequently in line with the new legislation for the sake of comparison and submitted to the regulators merely as a starting point within the scope of the EBA stress tests. For easier comparison, the items in accordance with the old legislation are presented in the lines of the new legislation as appropriate.

## 3.2. Reconciliation of items with financial statements

(Articles 437(a and f) and 447(e) of Regulation (EU) no. 575/2013)

The basis for the calculation of capital and capital ratios is the statements of the NLB Group compiled taking into account the prudential consolidation as described in Part One, Title II, Chapter 2 of Regulation (EU) no. 575/2013. Essentially, the capital of the NLB Group consists of the elements of equity in the balance sheet (not all elements and not fully) which is, in addition, reduced by deduction items and prudential filters.

The table below shows to what extent individual balance sheet items are included in the calculation of the capital and capital adequacy. In addition to the amounts actually included in the capital according to the calculation for the end of 2014 (second column), the amounts of these items in their full extent are also presented, i.e. the amounts that would have been taken into account in the calculation of capital adequacy had there been no allowances from the previous period (third column).

Because of the gradual introduction of certain provisions, the capital currently taken into account in the calculation of capital adequacy is EUR 29,815 lower than it would have been had all the requirements fully entered into force. The difference primarily arises from accumulated comprehensive income, where temporarily we excluded more unrealised gains than losses, and partially also from the deduction item for deferred taxes.

Mapping of the balance sheet items and capital for the purpose of capital adequacy of the NLB Group as at 31.12.2014

in EUR thousand

| | Prudential consolidation | Included in capital (CAR) as reported per 31.12.2014 | Fully loaded capital (transitional arrangements not applied) | |
|---|---|---|---|---|
| Cash, cash balances at central banks and other demand deposits at banks | 1,128,449 | | | |
| Trading assets | 138,218 | -138 | -138 | Prudential filter; Article 34 - AVA, 0.1% of book value |
| Financial assets designated at fair value through P&L | 6,510 | -7 | -7 | Prudential filter; Article 34 - AVA, 0.1% of book value |
| Available for sale financial assets | 1,671,194 | -1,671 | -1,671 | Prudential filter; Article 34 - AVA, 0.1% of book value |
| Derivatives - hedge accounting | 2,966 | | | |
| Loans and advances | 7,773,200 | | | |
| Held to maturity financial assets | 711,648 | | | |
| FV changes of hedged items in portfolio hedge of IRR | 912 | | | |
| Non-current assets classified as held for sale | 5,643 | | | |
| Property and equipment | 215,267 | | | |
| Investment property | 42,258 | | | |
| Intangible assets | 42,700 | -42,700 | -42,700 | |
| *Goodwill* | *3,529* | *-3,529* | *-3,529* | *Deduction item; Article 36.b - total amount* |
| *Other intangible assets* | *39,171* | *-39,171* | *-39,171* | *Deduction item; Article 36.b - total amount* |
| Investments in subsidiaries, associates and joint ventures | 14,354 | | | |
| Current income tax assets | 2,601 | | | |
| Deferred income tax assets | 6,165 | -802 | -4,009 | |
| *That do not rely on future profitability* | *0* | | | |
| *That rely on future profitability and do not arise from temporary differences* | *4,009* | *-802* | *-4,009* | *Deduction item; Article 36.c - 20% of the amount in transitional period* |
| *That rely on future profitability and arise from temporary differences* | *2,156* | | | |
| Other assets | 139,814 | | | |
| **Total assets** | **11,901,899** | | | |

| | Prudential consolidation | Included in capital (CAR) as reported per 31.12.2014 | Fully loaded capital (transitional arrangements not applied) | |
|---|---|---|---|---|
| Trading liabilities | 43,758 | -44 | -44 | Prudential filter; Article 34 - AVA, 0.1% of book value |
| Financial liabilities designated at fair value through P&L | 4,701 | -5 | -5 | Prudential filter; Article 34 - AVA, 0.1% of book value |
| Derivatives - hedge accounting | 43,985 | | | |
| Financial liabilities measured at amortized cost | 10,352,992 | | | |
| FV changes of the hedged items in portfolio hedge of IRR | 0 | | | |
| Provisions | 98,904 | | | |
| Current income tax liabilities | 1,684 | | | |
| Deferred income tax liabilities | 278 | | | |
| Other liabilities | 12,133 | | | |
| **Total liabilities** | **10,558,435** | | | |
| Share capital | 200,000 | 200,000 | 200,000 | Included in total amount; Article 26 |
| Share premium | 871,378 | 871,378 | 871,378 | Included in total amount; Article 26 |
| Accumulated other comprehensive income | 26,226 | -4,130 | 28,892 | |
| *From debt securities* | *35,154* | *-196* | *35,154* | |
| *AFS exposures to central governments* | *32,469* | *0* | *32,469* | Not included in capital according to BoS discretion; Article 467 (transitional period) |
| *Other exposures - unrealised losses* | *-982* | *-196* | *-982* | In 2014 only 20% of unrealised losses are included; Article 467 (transitional period) |
| *Other exposures - unrealised gains* | *3,667* | *0* | *3,667* | In 2014 unrealised profits are not included at all; Article 468 (transitional period) |
| *From equity securities* | *12,327* | *-65* | *12,327* | |
| *Unrealised losses* | *-326* | *-65* | *-326* | In 2014 only 20% of unrealised losses are included; Article 467 (transitional period) |
| *Unrealised gains* | *12,653* | *0* | *12,653* | In 2014 unrealised profits are not included at all; Article 468 (transitional period) |
| *From consolidation capital adjustment* | *-15,570* | *-3,114* | *-15,570* | In 2014 only 20% of unrealised losses are included; Article 467 (transitional period) |
| *From cashflow hedges* | *-2,666* | *0* | *0* | 20% of losses are included (Article 467) and then excl. as deduction item (Article 33.a) |
| *From hedge of net investment in foreign operation* | *754* | *0* | *754* | In 2014 unrealised profits are not included at all; Article 468 (transitional period) |
| *Other* | *-3,773* | *-755* | *-3,773* | In 2014 only 20% of unrealised losses are included; Article 467 (transitional period) |
| Profit reserves | 13,522 | 13,522 | 13,522 | Included in total amount; Article 26 |
| Retained earnings | 206,346 | 206,346 | 206,346 | Included in total amount; Article 26 |
| *Retained earnings - from previous years* | *148,235* | *148,235* | *148,235* | |
| *Retained earnings - current results* | *58,111* | *58,111* | *58,111* | |
| Non-controlling interests | 25,993 | 0 | 0 | Not eligible for inclusion in capital (Articles 81 to 84) |
| **Total equity** | **1,343,464** | | | |
| **Total liabilities and equity** | **11,901,899** | | | |
| | | **1,241,749** | **1,271,564** | **Sum of balance sheet items** |
| | | -1,670 | -1,670 | Prudential filter; Article 34 - AVA for off-balance items, 0.1% of book value |
| | | **1,240,078** | **1,269,893** | **Capital** |

## Differences between the accounting capital and the capital for the calculation of capital adequacy of the NLB Group as at 31.12.2014

in EUR thousand

| Balance sheet item | Prudential consolidation | Exclusion of minority interests not eligible according to CRR requirements | Exclusion of 100% of unrealised losses from exposures to central governments (in transitional period) | Exclusion of 80% of unrealised losses from other exposures (in transitional period) | Exclusion of 100% of unrealised profits (in transitional period) | Prudential filters and deduction items from capital | Capital (included in calculation of capital adequacy) | Balance sheet item |
|---|---|---|---|---|---|---|---|---|
| Share capital | **200,000** | | | | | | **200,000** | Paid up capital instruments |
| Share premium | **871,378** | | | | | | **871,378** | Share premium |
| Accumulated other comprehensive income | **26,226** | | 2,766 | 18,654 | -52,309 | | **-4,663** | Accumulated other comprehensive income |
| Profit reserves | **13,522** | | | | | | **13,522** | Other reserves |
| Retained earnings - from previous years | **148,235** | | | | | | **148,235** | Retained earnings - from previous years |
| Retained earnings - current results | **58,111** | | | | | | **58,111** | Current result |
| Non-controlling interests | **25,993** | -25,993 | | | | | **0** | Minority interest |
| | | | | | | 533 | **533** | Prudential filter: Cash flow hedge reserve (Article 33.a) |
| | | | | | | -3,535 | **-3,535** | Prudential filter: Additional valuation adjustment (AVA) ( Article 34) |
| | | | | | | -3,529 | **-3,529** | Deduction item: Goodwill (Article 36.b) |
| | | | | | | -39,171 | **-39,171** | Deduction item: Other intangible assets (Article 36.b) |
| | | | | | | -802 | **-802** | Deduction item: Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities (Article 36.c) |
| **Total equity** | **1,343,464** | **-25,993** | **2,766** | **18,654** | **-52,309** | **-46,504** | **1,240,078** | **Common Equity Tier 1 (CET1) capital** |
| | | | | | | | **0** | Additional Tier 1 capital |
| | | | | | | | **1,240,078** | **Tier 1 capital** |
| | | | | | | | **0** | Tier 2 capital |
| | | | | | | | **1,240,078** | **Total capital** |

## 3.3. Capital instruments included in the capital

(Article 437(b and c) of Regulation (EU) no. 575/2013)

In 2014 the capital of the NLB Group only consisted of Common Equity Tier 1 capital; the only instrument in this capital was the ordinary shares of the parent company NLB d.d.

In 2014 the NLB Group had no issued capital instruments eligible for inclusion in Additional Tier 1 capital or Tier 2 capital. Some of the subsidiary banks in the NLB Group do have subordinated instruments which they use themselves as a capital component, but because of the non-comparable legislation these instruments do not meet the conditions for inclusion in the capital of the NLB Group.

The main characteristics of **ordinary shares** of the NLB Group are shown in the table below:

| | | |
|---|---|---|
| 1 | Issuer | NOVA LJUBLJANSKA BANKA d.d., Ljubljana |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | SI0021116502 |
| 3 | Governing law(s) of the instrument | Slovene |
| | **Regulatory treatment** | |
| 4 | Transitional CRR rules | Common Equity Tier 1 |
| 5 | Post-transitional CRR rules | Common Equity Tier 1 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary share |
| 8 | Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | Paid up capital and related share premium: 1,071,377 |
| 9 | Nominal amount of instrument | N/A – No par value shares (20,000,000 shares) |
| 9a | Issue price | EUR 77.55 |
| 9b | Redemption price | N/A |
| 10 | Accounting classification | Shareholders' equity |
| 11 | Original date of issuance | 18.12.2013 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | N/A |
| 15 | Optional call date, contingent call dates and redemption amount | N/A |
| 16 | Subsequent call dates, if applicable | N/A |
| | **Coupons / dividends** | |
| 17 | Fixed or floating dividend / coupon | N/A |
| 18 | Coupon rate and any related index | N/A |
| 19 | Existence of a dividend stopper | N/A |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | N/A |
| 22 | Noncumulative or cumulative | N/A |
| 23 | Convertible or non-convertible | N/A |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down features | N/A |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | First loss absorbing instrument, subordinated to all instruments |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

N/A – not relevant for this instrument

The ordinary shares are fully included in the Common Equity Tier 1 capital of the NLB Group as the only source of capital. The shares meet all the conditions for inclusion in the capital as stated under the relevant provisions of Regulation (EU) no. 575/2013.

## 3.4. Detailed presentation of capital elements

(Article 437(d and e) of Regulation (EU) no. 575/2013)

The table below shows in detail the elements of the calculation of the capital of the NLB Group as at 31.12.2014 in the form as prescribed by the EBA-implementing technical standards, published as Commission Implementing Regulation (EU) no. 1423/2013 of 20.12.2014 (Annex VI – presentation of items in the transitional period). A summarised substantive presentation of the elements relevant for the NLB Group is given in Chapter 3.1.

In line with the instructions, the second column includes amounts that are temporarily excluded from the calculation of capital adequacy according to the provisions on the transitional period (residual amounts). Had the provisions applied fully, i.e. without the transitional period, the calculation would include the amount from the first column added to the difference in the second column. The NLB Group does not have capital instruments that would no longer be eligible for inclusion and that would be subject to pre-Regulation treatment.

in EUR thousand

| | | Amount at disclosure date (transitional arrangements as prescribed for this date) | Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|---|
| **Common equity Tier 1 (CET1) capital: instruments and reserves** | | | | |
| 1 | Capital instruments and the related share premium accounts | 1,071,377 | 0 | 26(1), 27, 28,29, 26(3) |
| | of which: Instrument type 1 | 1,071,377 | 0 | EBA list - 26(3) |
| 2 | Retained earnings | 148,235 | 0 | 26(1)(c) |
| 3 | Accumulated other comprehensive income (and other reserves) | 39,748 | 30,889 | 26(1) |
| 3a | Funds for general banking risk | 0 | 0 | 26(1)(f) |
| 5 | Minority interest (amount allowed in consolidated CET1) | 0 | 0 | 84, 479, 480 |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 58,111 | 0 | 26(2) |
| **6** | **Common equity Tier 1 (CET1) capital before regulatory adjustments** | **1,317,471** | **30,889** | |
| **Common equity Tier 1 (CET1) capital: regulatory adjustments** | | | | |
| 7 | Additional value adjustments (negative amount) | -3,535 | 0 | 34, 105 |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -42,700 | 0 | 36(1)(b), 37, 472(4) |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount) | -4,009 | -3,207 | 36(1)(c), 38, 472(5) |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | 2,666 | 2,133 | 33(a) |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | 0 | 0 | 36(1)(d), 40, 159, 472(6) |
| 13 | Any increase in equity that results from securitised assets (negative amount) | 0 | 0 | 32(1) |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | 0 | 0 | 33(b) |
| 15 | Defined-benefit pension fund assets (negative amount) | 0 | 0 | 36(1)(e), 41, 472(7) |
| 16 | Direct and indirect holdings by an institution of own CET1 Instruments (negative amount) | 0 | 0 | 36(1)(f), 42, 472(8) |
| 17 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | 0 | 36(1)(g), 44, 472(9) |
| 18 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | 0 | 36(1)(h), 43, 45, 46, 49(2)(3), 79, 472(10) |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | 0 | 36(1)(i), 43, 45, 47, 48(1)(b), 49(1)(2)(3), 79, 470, 472(11) |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | 0 | 0 | 36(1)(k) |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | 0 | 0 | 36(1)(k)(i), 89, 99, 90, 91 |
| 20c | of which: securitisation positions (negative amount) | 0 | 0 | 36(1)(k)(ii), 243(1)(b), 244(1)(b), 258 |
| 20d | of which: free deliveries (negative amount) | 0 | 0 | 36(1)(k)(iii), 379(3) |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the condition s in Article 38(3) are met) (negative amount) | 0 | 0 | 36(1)(c), 38, 48(1)(a), 470, 472(5) |
| 22 | Amount exceeding the 15% threshold (negative amount) | 0 | 0 | 48(1) |

| | | Amount at disclosure date (transitional arrangements as prescribed for this date) | Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|---|
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | 0 | 0 | 36(1)(i), 48(1)(b), 470, 472(11) |
| 25 | of which: deferred tax assets arising from temporary differences | 0 | 0 | 36(1)(c), 38,48(1)(a), 470, 472(5) |
| 25a | Losses for the current financial year (negative amount) | 0 | 0 | 36(1)(a), 472(3) |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | 0 | 0 | 36(1)(l) |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment | 0 | 0 | |
| 26a | Regulatory adjustments related to unrealised gains and losses pursuant to Articles 467 and 468 | -33,022 | 0 | |
| | of which: filter for unrealised loss - debt securities, central governments | 2,766 | 0 | 467 |
| | of which: filter for unrealised loss - debt securities, other | 786 | 0 | 467 |
| | of which: filter for unrealised loss - equity securities | 261 | 0 | 467 |
| | of which: filter for unrealised loss - from cashflow hedges | 0 | 0 | 467 |
| | of which: filter for unrealised loss - from hedge of net investment in foreign operation | 0 | 0 | 467 |
| | of which: filter for unrealised loss - pension reserves | 3,018 | 0 | 467 |
| | of which: filter for unrealised loss - from consolidation capital adjustment | 12,456 | 0 | 467 |
| | of which: filter for unrealised gain - debt securities, central governments | -35,235 | 0 | 468 |
| | of which: filter for unrealised gain - debt securities, other | -3,667 | 0 | 468 |
| | of which: filter for unrealised gain - equity securities | -12,653 | 0 | 468 |
| | of which: filter for unrealised gain - from cashflow hedges | 0 | 0 | 468 |
| | of which: filter for unrealised gain - from hedge of net investment in foreign operation | -754 | 0 | 468 |
| | of which: filter for unrealised gain - pension reserves | 0 | 0 | 468 |
| | of which: filter for unrealised gain - from consolidation capital adjustment | 0 | 0 | 468 |
| 26b | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR | 37,367 | 0 | 481 |
| | of which: intangible assets (including goodwill) | 34,160 | 0 | 481 |
| | of which: deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | 3,207 | 0 | 481 |
| 27 | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | -34,160 | 0 | 36(1)(j) |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-77,393** | **-1,074** | |
| **29** | **Common Equity Tier 1 (CET1) capital** | **1,240,078** | **29,815** | |
| **Additional Tier 1 (AT1) capital: instruments** | | | | |
| 30 | Capital instruments and the related share premium accounts | 0 | 0 | 51, 52 |
| 33 | Amount of qualifying items referred to in Article 484(3) and the related share premium account subject to phase out from AT1 | 0 | 0 | 486(3) |
| | Public sector capital injections grandfathered until 1 January 2018 | 0 | 0 | 483(3) |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | 0 | 0 | 85, 86, 480 |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **0** | **0** | |
| **Additional Tier 1 (AT1) capital: regulatory adjustments** | | | | |
| 37 | Direct and indirect holdings by an institution of own AT1 Instruments (negative amount) | 0 | 0 | 52(1)(b), 56(a), 57, 475(2) |
| 38 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | 0 | 56(b), 58, 475(3) |
| 39 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | 0 | 56(c), 59, 60, 79, 475(4) |
| 40 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | 0 | 56(d), 59, 79, 475(4) |
| 41 | Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts) | 0 | 0 | |
| 41a | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) no 575/2013 | 34,160 | 0 | 472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)a) |
| | of which: intangible assets | 34,160 | 0 | |
| 41b | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) no 575/2013 | 0 | 0 | 477, 477(3), 477(4)(a) |

| | | Amount at disclosure date (transitional arrangements as prescribed for this date) | Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|---|
| 41c | Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR | 0 | 0 | 467, 468, 481 |
| 42 | Qualifying T2 deductions that exceeded the T2 capital of the institution | -34,160 | 0 | 56(e) |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1)** | **0** | **0** | |
| **44** | **Additional Tier 1 (AT1) capital** | **0** | **0** | |
| **45** | **Tier 1 capital (T1= CET1 + AT1)** | **1,240,078** | **29,815** | |
| **Tier 2 (T2) capital: instruments and provisions** | | | | |
| 46 | Capital instruments and the related share premium accounts | 0 | 0 | 62, 63 |
| 47 | Account of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2 | 0 | 0 | 486(4) |
| | Public sector capital injections grandfathered until 1 January 2018 | 0 | 0 | 483(4) |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 0 | 0 | 87, 88, 480 |
| 50 | Credit risk adjustment | 0 | 0 | 62(c) (d) |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **0** | **0** | |
| **Dodatni kapital: regulatorne prilagoditve** | | | | |
| 52 | Direct and indirect holdings by an institution of own T2 Instruments and subordinated loans (negative amount) | 0 | 0 | 63(b)(i), 66(a), 67, 477(2) |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | 0 | 66(b), 68, 477(3) |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | 0 | 66(c), 69,70,79 , 477(4) |
| 55 | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | 0 | 66(d), 69, 79, 477(4) |
| 56 | Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no 575/2013 (i.e. CRR residual amounts) | 0 | 0 | |
| 56a | Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) no 575/2013 | 0 | 0 | 472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a) |
| 56b | Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) no 575/2013 | 0 | 0 | 475, 475(2)(a), 475(3), 475(4)(a) |
| 56c | Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR | 0 | 0 | 467, 468, 481 |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **0** | **0** | |
| **58** | **Tier 2 (T2) capital** | **0** | **0** | |
| **59** | **Total capital (TC = T1 + T2)** | **1,240,078** | **29,815** | |
| 59a | Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. residual amounts) | 0 | 0 | |
| | Of which: … items not deducted from CET1 (Regulation (EU) no 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc) | 0 | 0 | 472, 472(5), 472(8)(b), 472(10)(b), 472(11)(b) |
| | Of which: … items not deducted from AT1 items (Regulation (EU) no 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc) | 0 | 0 | 475, 475(2)(b), 475(2)(c), 475(4)(b) |
| | Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of non-significant investments in the capital of other financial sector entities, etc) | 0 | 0 | 477, 477(2)(b), 477(2)(c), 477(4)(b) |
| **60** | **Total risk weighted assets** | **7,037,982** | **0** | |
| **Capital ratios and buffers** | | | | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 17.6% | | 92(2)(a), 465 |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 17.6% | | 92(2)(b), 465 |
| 63 | Total capital (as a percentage of total risk exposure amount) | 17.6% | | 92(2)(c) |
| 64 | Institution specific buffer requirement (CET! Requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) * | N/A | | CRD 128, 129, 130 |

| | | Amount at disclosure date (transitional arrangements as prescribed for this date) | Amounts subject to pre-Regulation (EU) No 575/2013 or prescribed residual amount of Regulation (EU) No 575/2013 | Regulation (EU) No 575/2013 article reference |
|---|---|---|---|---|
| 65 | of which: capital conservation buffer requirement * | N/A | | |
| 66 | of which: countercyclical buffer requirement * | N/A | | |
| 67 | of which: systemic risk buffer requirement * | N/A | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer * | N/A | | CRD 131 |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure amount) * | N/A | | CRD 128 |
| **Amounts below the threshold for deduction (before risk weighting)** | | | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 5,288 | 0 | 36(1)(h), 46, 45, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4) |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 14,655 | 0 | 36(1)(i), 45, 48, 470, 472(11) |
| 75 | Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met | 2,156 | 0 | 36(1)(c), 38, 48, 470, 472(5) |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | 0 | 0 | 62 |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | N/A | N/A | 62 |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | 0 | 0 | 62 |
| 79 | Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach | 0 | 0 | 62 |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)** | | | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | N/A | N/A | 484(3), 486(2),(5) |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | 0 | 0 | 484(3), 486(2),(5) |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | N/A | N/A | 484(3), 486(3),(5) |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | 0 | 0 | 484(3), 486(3),(5) |
| 84 | Current cap on T2 instruments subject to phase out arrangements | N/A | N/A | 484(3), 486(4),(5) |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | 0 | 0 | 484(3), 486(4),(5) |

* At the end of 2014, capital buffers were not prescribed yet

N/A – not relevant

# 4. Capital requirements

## 4.1. Summary of the approach to assessing the adequacy of its internal capital to support current and future activities

(Article 438(a) of Regulation (EU) no. 575/2013)

The internal capital adequacy assessment process (ICAAP) of the NLB Group meets the requirements of the Regulation (CRR), the recommendations of the Bank of Slovenia and the European Central Bank, and good banking practices. The key highlights of the implementation of the ICAAP process in the NLB Group are as follows:
- definition of the strategic goals and orientations regarding risk appetite, representing the basis for business guidelines,
- definition of the risk profile and the related internal limit system,
- definition of internal capital adequacy assessment process methodologies,
- planning the volume of available capital, defining the target capital adequacy ratio,
- regular monitoring and definition of the measures to manage and mitigate risks.

The ICAAP process in the NLB Group is integrated in the implementation of long-term planning, with the active role of the management of NLB d.d., and represents one of the components of the corporate governance of the Group with the aim of ensuring its stable operation in the long run. Risk identification and assessment are carried out on the basis of internal methodologies which take into account the complexity of the structure of the Group's operations with the tendency of upgrading in terms of advanced approaches to risk management. The ICAAP process includes regular quarterly monitoring and reporting at the level of the Management Board of NLB d.d., and defines the set of corrective measures for managing and mitigating risks. The results of the ICAAP are also regularly reported to the Risk Committee of the Supervisory Board of NLB d.d.

The NLB Group has defined its risk appetite and established the risk strategy, within the scope of which more detailed substantive guidelines are also given. Credit risk is the most important risk faced by the NLB Group, with the Group focusing on taking moderate risks while simultaneously ensuring optimal return considering the risks assumed. As regards liquidity risk, the activities are geared towards constant ensuring of an appropriate level of liquidity for the purpose of fulfilling all short-term liabilities. Hence it follows that the assumption of this risk is relatively low. When assuming market and operational risks the NLB Group follows the orientation that such risks must not significantly impact its operations. The tolerance to other risk types is low, with a focus on minimising their possible impacts on the entire Group's operations.

In addition, the NLB Group has also established its risk profile, which defines the key risks and the major risk indicators within two categories – as limits or target values. They were defined especially for NLB d.d. and at the level of the NLB Group, whereby some risk indicators take into account the specific operations of the NLB Group members. Regular monitoring of the risk indicators has been established, at least once a month by the ALCO of the NLB Group, or promptly by the Risk Committee of the Supervisory Board of NLB d.d. Such an approach to monitoring the target risk profile has also been established in individual members of the NLB Group.

The internal assessment of the capital requirements of the NLB Group consists of the following steps:
- risk identification and defining of material risks,
- selection of the approach to the calculation of regulatory capital requirements (“Pillar 1”),
- definition of the internal methodology for the identification, measurement and calculation of capital requirements for non-regulatory risks (“non-Pillar 1”),
- implementing stress scenarios for non-regulatory risks (“non-Pillar 1”),
- definition of the methodology for the production of the aggregate assessment of capital requirements for all material risks.

In the scope of regulatory risks, which include credit risk, operational risk and market risk, the 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 the calculation of the capital requirements for NLB d.d. on a standalone basis, except for the calculation of the capital requirement for operational risks, where the standardised approach is used.

In the preparation of the internal capital adequacy assessment, NLB d.d. and bank members of the NLB Group identify risks not included in the calculation under the regulatory approach, which are nevertheless equally important to them. The scope of additional credit risks also includes the concentration risk – to individual clients and groups of related parties, at the level of activity – and collateral concentration risk and add-on for exposures to countries arising from the former Yugoslav republics. The NLB Group calculates the capital requirement for non-financial risks (which include capital risk, profitability risk, strategic risk and reputation risk), if it assesses that individual risk is crucial for the NLB Group. In addition, the non-regulatory risks include the effects of stress scenarios for credit (deterioration of the credit rating structure, decrease in real-estate market prices, cashed in guarantees), currency (foreign exchange), liquidity, interest rate risk in the banking book and market risks arising from securities.

The internal methodologies of capital adequacy assessment for non-regulatory risks of NLB d.d. are defined in detail in the document "ICAAP Process – Methodology of assessing capital requirements". The bank members of the NLB Group have set up their own methodologies, accounting for the methodology guidelines by NLB d.d. and the specifics of their operations, investment portfolio structure, strategic guidelines, regulatory framework and the relevant macroeconomic environment.

## 4.2. Capital requirements

(Articles 438(c, e and f) and 445 of Regulation (EU) no. 575/2013)

The NLB Group uses the following approaches to the calculation of regulatory capital requirements on a consolidated basis:
- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – basic indicator approach.

In the calculation of capital ratios, risk is expressed as risk exposure amount (or risk weighted assets - RWA) or as a capital requirement. The capital requirement for an individual risk amounts to 8% of the total risk exposure amount to the individual risk. The table below shows the detailed composition of capital requirements of the NLB Group at the end of 2014 and at the end of the previous year. Because of the amended legislation, the data for the end of the last year are presented according to both calculations (in the first column in accordance with the then applicable (CRD II) legislation, as reported to the supervisors), and the second column shows the assessed recalculation in accordance with the new legislation (CRD IV).

## Capital requirements of the NLB Group

in EUR thousand

| | | Estimation | |
|---|---|---|---|
| | 31.12.2014 | 1.1.2014 | 12.31.2013 |
| **Capital requirement for credit risk** | **470,008** | **475,280** | **527,496** |
| Central governments or central banks | 1,438 | 1,708 | 1,402 |
| Regional governments or local authorities | 5,017 | 5,285 | 5,288 |
| Public sector entities | 4,462 | 4,607 | 4,625 |
| Multilateral Development Banks | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 |
| Institutions | 32,196 | 21,164 | 22,085 |
| Corporates | 136,044 | 164,638 | 187,753 |
| Retail | 170,545 | 152,390 | 183,300 |
| Secured by mortgages on immovable property | 18,139 | 19,233 | 20,330 |
| Exposures in default | 59,030 | 38,058 | 35,190 |
| Items associated with particular high risk | 3,300 | 21,529 | 23,581 |
| Covered bonds | 478 | 224 | 224 |
| Claims on institutions and corporates with a short-term credit assessment | 0 | 0 | 0 |
| Collective investments undertakings (CIU) | 0 | 0 | 0 |
| Equity | 5,989 | 9,420 | - |
| Other items | 33,370 | 37,025 | 43,718 |
| **Capital requirements for market risks** | **11,280** | **14,114** | **19,929** |
| Position risk - Traded debt instruments | 2,163 | 1,799 | 1,799 |
| Position risk - Equity | 4 | 2,844 | 2,844 |
| Large exposures exceeding the limit | 0 | 0 | 0 |
| Foreign exchange risk | 9,113 | 9,471 | 15,285 |
| Settlement / delivery risk | 0 | 0 | 0 |
| Commodities risk | 0 | 0 | 0 |
| Specific interest rate risk of securitisation positions | n.r. | n.r. | n.r. |
| **Capital requirement for credit valuation adjustment (CVA)** | **667** | **265** | **-** |
| **Capital requirement for operational risk** | **81,083** | **93,005** | **93,005** |
| **TOTAL CAPITAL REQUIREMENTS** | **563,039** | **582,665** | **640,430** |
| **TOTAL RISK EXPOSURE AMOUNT (RWA)** | **7,037,982** | **7,283,314** | **8,005,380** |

For the NLB Group, the change in the calculation of the capital requirement for credit risks is the most important. The most material effect resulted from the introduction of the conversion factor for SMEs, which contributed to the decrease in risk-weighted assets in the following segments: ”corporates”, “retail” and “secured by mortgages on immovable property”. Equity investments were reclassified from the category “other” to the category “equity”. Moreover, the part of the equity investments that was taken into account as a deduction from capital in accordance with the old legislation was also reclassified to the category of equity.

During 2014, major changes appeared in the segment of items in default and items associated with particular high risk: all exposures where the default at the level of the client exceeds the material limit were reclassified from the category of items associated with particular high risk to the category of exposures in default. In this case, the total exposure of the client is taken into account as exposure in default for corporates, while for retail clients classification in the category of exposure in defaults remains at the level of an individual transaction.

# 5. Exposure to counterparty credit risk

## 5.1. The methodology used to assign internal capital and credit limits for counterparty credit exposures, and the measures for exposure value under the method used

(Article 439(a and f) of Regulation (EU) no. 575/2013)

The NLB Group monitors counterparty credit risk exposure by using the method of current exposure in compliance with the Regulation. Credit replacement value (CRV) is the sum of current and potential exposure. For repo transactions, the exposure equals the current value of the investment (comprising the nominal value and accrued interest) less the current value of collateral (market price of the security) where the highest exposure may equal the agreed amount not being transferred within the margin call.

Credit exposure is monitored by applying a limit to individual clients (according to the principle of sustainable debt). The limit is set within the scope of credit advice (opinion regarding risk assumption, taking into account of principle of co-decision). It is carried out in line with the Criteria and Procedures for Granting Loans and the currently applicable regulations in the area.

The calculation of internal capital for the above-mentioned financial instruments is analogous to that made for other types of investments by using a standardised approach for credit risks. The consumption of capital is relatively low owing to the relatively low transaction volumes and the low exposure arising from these financial instruments as a share of all transactions. In accordance with the new Capital Requirements Directive, in 2014 the Bank transferred the settlement of the majority of these transactions to the suitable central counterparty. Therefore, there will be no material effect on the capital consumption.

The new legislation on capital requirements brought changes concerning exposure to counterparty credit risk and the related capital requirements. In the valuation of these financial instruments, fair value calculation must be adjusted by including counterparty credit risk (CVA - credit valuation adjustment) unless the settlement is made via a central counterparty or clearing house. The CVA provisions do not concern transactions made with non-financial counterparties and transactions within groups of related persons.

## 5.2. Policies for securing collateral and establishing credit reserves, and the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating

(Article 439(b and d) of Regulation (EU) no. 575/2013)

The conclusion of financial derivatives transactions in the NLB Group is defined in detail in its internal documents (policies, strategies). These documents represent the framework within which the Bank may trade in derivatives, including the level of acceptable risk. For operations in the interbank market, NLB d.d. has signed ISDA agreements with the relevant annexes, such as CSA, which regulates the exchange of collateral to cover for market exposure under all transactions under an ISDA agreement.

If NLB d.d. were downgraded, the counterparties, financial institutions in particular, with whom the Bank had or has entered into transactions could ask the Bank to increase collateral or decide to terminate the transactions early. In accordance with the new EU directive, in 2014 the Bank transferred the monitoring and settlement of the majority of these transactions to a suitable central counterparty (CCP - qualifying central counterparty), thus avoiding the risk of negative effects of the early termination of a transaction or the necessary provision of additional collateral.

## 5.3. Discussion of policies with respect to wrong-way risk exposures

(Article 439(c) of Regulation (EU) no. 575/2013)

If a counterparty which has been asked to provide additional prime collateral necessary due to adverse changes in financial markets fails to do so, the Bank may close synthetic forward deals and liquidate the existing collateral while the collateral for other derivatives will be arranged based on the individual transaction, in accordance with the applicable Master agreement for trading in derivatives or through clearing at daily level. On the interbank market, the Bank performs derivatives transactions in accordance with the signed ISDA agreement and the pertaining annexes (CSA). In 2014 the Bank transferred the monitoring and settlement of the majority of these transactions made with financial institutions to the suitable CCP.

## 5.4. Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure

(Article 439(e) of Regulation (EU) no. 575/2013)

The NLB Group uses contractual offsets (such as CSA Agreement and Margin call) to a very limited extent and for internal needs of monitoring only. The NLB Group does not use the contractual offset provisions in regulatory reporting (exposure and credit risk capital requirement calculation). In accordance with Article 432 of Regulation (EU) no. 575/2013, the Bank does not disclose details as, considering the low volume of transactions and their effect on the Bank's business performance, it is not material information which, if omitted or misstated, would alter or affect the assessment or decision of the person using the information to take economic decisions.

# 6. Credit risk adjustments

For the calculation of the capital requirement for credit risk, the NLB Group uses the standardised approach as prescribed by Regulation (EU) no. 575/2013. The calculation of capital requirement takes into account the effect of loan collateral as a secondary source of receivable repayment; the Bank uses the simple calculation method for collateral. According to this methodology, the capital requirement is calculated depending on the segment and credit quality of clients (as determined by external credit rating) and the quality of collateral which must be adequately evaluated and at the same time satisfy the prescribed minimum requirements.

## 6.1. Breakdown of exposures and loan collaterals by exposure category

(Articles 442(c) and 444(e) of Regulation (EU) no. 575/2013)

Distribution of exposures, credit collaterals, risk-weighted assets and capital requirement of the NLB Group based on exposure categories

at 31 December 2014:

| Category of exposure | Original exposure pre conversion factor | Share of each category | Net value of exposure | Net value of exposure (the average of four quarters of 2014) | Credit risk mitigation techniques (CRM) Unfunded credit protection: adjusted values (GA) | |
|---|---|---|---|---|---|---|
| | | | | | Guarantees | Credit derivatives |
| | 1 | 2=1/sum(1) | 3 | 4 | 5 | 6 |
| Central governments or central banks | 2,753,435 | 17.61% | 2,750,482 | 2,866,064 | 0 | 0 |
| Regional governments or local authorities | 137,107 | 0.88% | 128,278 | 118,777 | 0 | 0 |
| Public sector entities | 137,596 | 0.88% | 130,325 | 124,900 | 59,722 | 0 |
| Multilateral Development Banks | 55,493 | 0.35% | 55,493 | 47,713 | 0 | 0 |
| Institutions | 1,172,157 | 7.50% | 1,147,493 | 1,120,722 | 94,933 | 0 |
| Corporates | 4,089,315 | 26.16% | 3,829,187 | 3,866,207 | 1,301,483 | 0 |
| Retail | 3,685,135 | 23.57% | 3,588,224 | 3,587,379 | 193 | 0 |
| Secured by mortgages on immovable property | 637,163 | 4.08% | 613,637 | 620,180 | 0 | 0 |
| Exposures in default | 2,176,423 | 13.92% | 715,807 | 609,647 | 696 | 0 |
| Items associated with particular high risk | 81,787 | 0.52% | 36,946 | 174,385 | 0 | 0 |
| Covered bonds | 30,896 | 0.20% | 30,896 | 19,324 | 0 | 0 |
| Equity* | 52,885 | 0.34% | 52,885 | 77,719 | 0 | 0 |
| Other items | 623,207 | 3.99% | 613,248 | 624,543 | 0 | 0 |
| **Total** | **15,632,600** | **100.00%** | **13,692,902** | **13,857,557** | **1,457,026** | **0** |

* Equity: a new category of exposure introduced by the new CRR directive and in effect since 1.1.2014

at 31 December 2013:

| Category of exposure | Original exposure pre conversion factor | Share of each category | Net value of exposure | Net value of exposure (the average of four quarters of 2013) | Credit risk mitigation techniques (CRM) Unfunded credit protection: adjusted values (GA) | |
|---|---|---|---|---|---|---|
| | | | | | Guarantees | Credit derivatives |
| | 1 | 2=1/sum(1) | 3 | 4 | 5 | 6 |
| Central governments or central banks | 2,837,464 | 17.45% | 2,836,141 | 2,610,757 | 0 | 0 |
| Regional governments or local authorities | 121,808 | 0.75% | 116,959 | 111,781 | 0 | 0 |
| Public sector entities | 140,778 | 0.87% | 134,315 | 159,228 | 69,118 | 0 |
| Multilateral Development Banks | 33,717 | 0.21% | 33,717 | 33,796 | 0 | 0 |
| Institutions | 781,408 | 4.81% | 766,776 | 834,049 | 64,730 | 0 |
| Corporates | 4,486,163 | 27.60% | 4,094,595 | 4,288,312 | 1,351,539 | 0 |
| Retail | 3,726,124 | 22.92% | 3,603,855 | 3,705,303 | 1,781 | 0 |
| Secured by mortgages on immovable property | 668,043 | 4.11% | 643,255 | 623,504 | 0 | 0 |
| Exposures in default | 1,320,318 | 8.12% | 389,366 | 845,206 | 0 | 0 |
| Items associated with particular high risk | 865,489 | 5.32% | 306,955 | 763,563 | 4,452 | 0 |
| Covered bonds | 18,483 | 0.11% | 18,483 | 20,060 | 3,447 | 0 |
| Equity* | - | - | - | - | - | - |
| Other items | 1,257,304 | 7.73% | 1,249,813 | 1,342,810 | 0 | 0 |
| **Total** | **16,257,099** | **100.00%** | **14,194,231** | **15,338,370** | **1,495,066** | **0** |

* Equity: a new category of exposure introduced by the new CRR directive and in effect since 1.1.2014.

At the end of 2014, none of the net exposures enters the calculation of capital requirements as a deduction from capital; they enter the calculation of capital requirements in their total amount.

In 2014, the original value of exposure fell by EUR 624.5 million, and the net exposure by EUR 501.3 million; consequently, the capital requirement also decreased by EUR 57.5 million. The largest decrease in net exposure in 2014 was recorded in the category of exposure to corporates[18]. The share of this category in the total exposure amounts to 28% (28.8% at the end of 2013), followed by the category of exposure arising from retail banking, amounting to 26.2% (25.4% at the end of 2013). If the categories of exposures secured by mortgages on immovable property, items associated with particular high risk and exposures in default, which are also included in the segments of corporate and retail clients, are added to the above, all five categories of exposures account for 64.1% of the total exposure (0.4 p.p. less than at the end of 2013) and 82.4% of the total capital requirement for credit risks (85.3% at the end of 2013). In 2014 the net exposure in the category of items associated with particular high risk dropped from EUR 307 million to EUR 37 million, resulting from the amended regulations and the transfer of part of these items to the category of exposures in default. The two categories in total account for 5.7% of the exposure (4.9% at the end of 2013). The categories of exposure to governments and institutions considerably contribute to the total exposure, where the capital requirement is relatively low owing to lower weights.

in EUR thousand

| Credit risk mitigation techniques (CRM) | | Value of CRM / Net exposure | Net exposure after CRM substitution effects pre conversion factors | Exposure value | Risk weighted exposure amount | Capital requirement | Share of capital requirement |
|---|---|---|---|---|---|---|---|
| Funded credit protection | | | | | | | |
| Financial collateral: simple method | Other funded credit protection | | | | | | |
| 7 | 8 | 9=(5+6+7+8)/3 | 10 | 11 | 12 | 13 | 14=13/sum(13) |
| 0 | 0 | 0.00% | 4,321,771 | 4,277,332 | 17,977 | 1,438 | 0.31% |
| 0 | 0 | 0.00% | 128,278 | 127,344 | 62,712 | 5,017 | 1.07% |
| 1,283 | 0 | 46.81% | 69,320 | 65,208 | 55,773 | 4,462 | 0.95% |
| 0 | 0 | 0.00% | 55,493 | 55,493 | 0 | 0 | 0.00% |
| 0 | 0 | 8.27% | 1,055,497 | 971,808 | 402,452 | 32,196 | 6.85% |
| 31,672 | 0 | 34.82% | 2,496,032 | 1,875,927 | 1,700,552 | 136,044 | 28.95% |
| 82,932 | 0 | 2.32% | 3,505,099 | 2,986,629 | 2,131,815 | 170,545 | 36.29% |
| 0 | 0 | 0.00% | 613,637 | 603,837 | 226,735 | 18,139 | 3.86% |
| 870 | 0 | 0.22% | 714,241 | 652,503 | 737,879 | 59,030 | 12.56% |
| 419 | 0 | 1.14% | 36,527 | 27,500 | 41,250 | 3,300 | 0.70% |
| 0 | 0 | 0.00% | 30,896 | 30,896 | 5,973 | 478 | 0.10% |
| 0 | 0 | 0.00% | 52,885 | 52,885 | 74,868 | 5,989 | 1.27% |
| 23 | 0 | 0.00% | 613,225 | 612,957 | 417,119 | 33,370 | 7.10% |
| **117,200** | **0** | **11.50%** | **13,692,902** | **12,340,320** | **5,875,105** | **470,008** | **100.00%** |

in EUR thousand

| Credit risk mitigation techniques (CRM) | | Value of CRM / Net exposure | Net exposure after CRM substitution effects pre conversion factors | Exposure value | Risk weighted exposure amount | Capital requirement | Share of capital requirement |
|---|---|---|---|---|---|---|---|
| Funded credit protection | | | | | | | |
| Financial collateral: simple method | Other funded credit protection | | | | | | |
| 7 | 8 | 9=(5+6+7+8)/3 | 10 | 11 | 12 | 13 | 14=13/sum(13) |
| 0 | 0 | 0.00% | 4,420,575 | 4,394,762 | 17,530 | 1,402 | 0.27% |
| 0 | 0 | 0.00% | 116,959 | 116,594 | 66,103 | 5,288 | 1.00% |
| 464 | 0 | 51.81% | 73,200 | 68,254 | 57,813 | 4,625 | 0.88% |
| 0 | 0 | 0.00% | 33,893 | 33,893 | 0 | 0 | 0.00% |
| 9,195 | 0 | 9.64% | 699,075 | 627,768 | 276,066 | 22,085 | 4.19% |
| 77,903 | 0 | 34.91% | 2,709,898 | 2,346,918 | 2,346,913 | 187,753 | 35.59% |
| 120,130 | 0 | 3.38% | 3,540,777 | 3,055,004 | 2,291,253 | 183,300 | 34.75% |
| 0 | 0 | 0.00% | 643,255 | 630,047 | 254,119 | 20,330 | 3.85% |
| 1,019 | 0 | 0.26% | 388,968 | 388,362 | 439,876 | 35,190 | 6.67% |
| 1,656 | 0 | 1.99% | 302,780 | 250,818 | 294,759 | 23,581 | 4.47% |
| 0 | 0 | 18.65% | 15,036 | 15,036 | 2,800 | 224 | 0.04% |
| - | - | - | - | - | - | - | - |
| 0 | 0 | 0.00% | 1,249,813 | 1,249,808 | 546,474 | 43,718 | 8.29% |
| **210,368** | **0** | **12.01%** | **14,194,231** | **13,177,264** | **6,593,706** | **527,496** | **100.00%** |

[18] A major fall was recorded in the category of items associated with particular high risk; however, this resulted from the redistribution to exposures in default and there was no actual decrease in exposure.

## 6.2. Geographical distribution of exposures, broken down in significant areas by material exposure classes

(Article 442(d) of Regulation (EU) no. 575/2013)

The distribution of exposures by significant geographical area, broken down by material category of exposure

at 31 December 2014: in EUR thousand

| Country | Category of exposure | | | | | | |
|---|---|---|---|---|---|---|---|
| | Exposures to central governments and central banks | Exposures to institutions | Exposures to corporates | Retail exposures | Past due items | Other | Total |
| Slovenia | 1,373,877 | 129,277 | 3,108,574 | 2,264,919 | 714,052 | 1,219,798 | 8,810,497 |
| Macedonia | 253,828 | 6,328 | 290,301 | 503,896 | 76,321 | 116,006 | 1,246,681 |
| Bosnia and Herzegovina | 236,650 | 3,244 | 211,493 | 412,468 | 251,663 | 127,784 | 1,243,302 |
| Serbia | 129,486 | 5,186 | 40,968 | 99,574 | 428,320 | 82,179 | 785,713 |
| Montenegro | 110,564 | 22 | 123,722 | 199,479 | 270,982 | 41,240 | 746,009 |
| Germany | 111,482 | 361,355 | 1,075 | 768 | 14,919 | 5,103 | 494,703 |
| Kosovo | 92,091 | 333 | 135,258 | 181,930 | 20,782 | 28,198 | 458,593 |
| Croatia | 1,583 | 6,517 | 77,830 | 16,100 | 301,432 | 42,042 | 445,505 |
| Austria | 97,650 | 206,826 | 10,916 | 163 | 2,683 | 1,357 | 319,595 |
| Luxemburg | 31,328 | 76,888 | 2,482 | 880 | 0 | 44,156 | 155,734 |
| Netherlands | 76,347 | 37,069 | 1,670 | 21 | 24,061 | 8,367 | 147,534 |
| France | 82,263 | 56,263 | 0 | 865 | 0 | 4,390 | 143,780 |
| Belgium | 56,740 | 68,124 | 16,289 | 101 | 0 | 906 | 142,160 |
| Italy | 10,189 | 41,721 | 7,024 | 1,556 | 11,201 | 725 | 72,416 |
| Great Britain | 0 | 12,683 | 31,441 | 1,406 | 438 | 8,660 | 54,628 |
| Finland | 48,472 | 59 | 0 | 1 | 0 | 4,271 | 52,804 |
| Switzerland | 0 | 33,994 | 16,946 | 114 | 1 | 1,005 | 52,059 |
| Czech Republic | 3,862 | 1,234 | 4,857 | 143 | 25,311 | 5,548 | 40,954 |
| Other countries | 37,024 | 125,033 | 8,470 | 750 | 34,256 | 14,401 | 219,935 |
| **Total** | **2,753,435** | **1,172,157** | **4,089,315** | **3,685,135** | **2,176,423** | **1,756,134** | **15,632,600** |

at 31 December 2013: in EUR thousand

| Country | Category of exposure | | | | | | |
|---|---|---|---|---|---|---|---|
| | Exposures to central governments and central banks | Exposures to institutions | Exposures to corporates | Retail exposures | Past due items | Other | Total |
| Slovenia | 1,697,917 | 100,810 | 3,320,425 | 2,348,276 | 333,494 | 1,885,040 | 9,685,962 |
| Macedonia | 218,080 | 5,517 | 304,285 | 453,017 | 41,195 | 171,198 | 1,193,291 |
| Bosnia and Herzegovina | 173,409 | 4,272 | 210,359 | 397,876 | 238,002 | 215,939 | 1,239,856 |
| Serbia | 172,634 | 1,287 | 132,653 | 112,746 | 244,897 | 250,205 | 914,422 |
| Montenegro | 54,925 | 2,041 | 151,482 | 211,512 | 112,326 | 240,340 | 772,625 |
| Germany | 103,449 | 199,108 | 1,145 | 639 | 15,802 | 9,245 | 329,389 |
| Kosovo | 79,444 | 687 | 137,083 | 177,694 | 11,828 | 73,665 | 480,402 |
| Croatia | 960 | 18,728 | 65,042 | 17,375 | 210,696 | 145,974 | 458,774 |
| Austria | 83,444 | 95,172 | 3,884 | 318 | 12,639 | 1,085 | 196,542 |
| Luxemburg | 0 | 73,970 | 5,684 | 7 | 2,692 | 32,765 | 115,117 |
| Netherlands | 25,694 | 14,567 | 38,990 | 22 | 0 | 28,558 | 107,831 |
| France | 83,770 | 27,273 | 98 | 587 | 0 | 143 | 111,871 |
| Belgium | 90,495 | 61,147 | 30,574 | 198 | 567 | 853 | 183,834 |
| Italy | 13,656 | 33,442 | 8,862 | 2,360 | 24,213 | 1,104 | 83,636 |
| Great Britain | 0 | 20,464 | 19,931 | 761 | 438 | 7,209 | 48,803 |
| Finland | 13,740 | 84 | 0 | 1 | 0 | 0 | 13,826 |
| Switzerland | 0 | 45,874 | 28,655 | 96 | 2,387 | 1,052 | 78,065 |
| Czech Republic | 2,076 | 2,315 | 10,616 | 416 | 9,693 | 37,859 | 62,975 |
| Other countries | 23,772 | 74,649 | 16,397 | 2,225 | 59,447 | 3,390 | 179,879 |
| **Total** | **2,837,464** | **781,408** | **4,486,163** | **3,726,124** | **1,320,318** | **3,105,622** | **16,257,099** |

The above tables show the geographical distribution of material categories of exposures, which represent 88.8% of the total exposure as at 31/12/2014 (80.9% at the end of 2013).

The exposure of the NLB Group is geographically concentrated in markets where the bank members of the Group are based (core markets – in addition to Slovenia, Bosnia and Herzegovina, Macedonia, Serbia, Montenegro, and the Republic of Kosovo). The exposure in Slovenia accounts for 56.4% of the total exposure (59.6% at the end of 2013), whereas 85% of the total exposure (87.9% at the end of 2013) is concentrated in the said core markets of the Group. In other markets, material exposure is only in the segment of governments and central banks and institutions (arising from liquidity reserves), whereas exposure to corporates and retail clients is smaller.

## 6.3. Distribution of exposures by counterparty type or industry, broken down by exposure classes

(Article 442(e) of Regulation (EU) no. 575/2013)

Exposures by category of exposure and counterparty type

at 31 December 2014: in EUR thousand

| Category of exposure | CG | NP | IN | PS | CO LARGE | CO SME | MDB | RG | Other |
|---|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | 2,752,548 | 0 | 411 | 0 | 209 | 20 | 0 | 0 | 248 |
| Regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 137,107 | 0 |
| Public sector entities | 0 | 0 | 0 | 137,596 | 0 | 0 | 0 | 0 | 0 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 55,493 | 0 | 0 |
| Institutions | 0 | 0 | 1,172,157 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corporates | 0 | 0 | 0 | 0 | 2,464,709 | 1,617,427 | 0 | 0 | 7,180 |
| Retail | 0 | 2,856,663 | 0 | 0 | 0 | 828,472 | 0 | 0 | 0 |
| Secured by mortgages on immovable property | 0 | 435,015 | 0 | 130 | 107,335 | 94,683 | 0 | 0 | 0 |
| Exposures in default | 0 | 150,515 | 0 | 0 | 629,672 | 1,396,238 | 0 | 0 | -1 |
| Items associated with particular high risk | 0 | 6,983 | 1,390 | 46 | 26,637 | 46,731 | 0 | 0 | 0 |
| Covered bonds | 0 | 0 | 30,896 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity* | 0 | 0 | 110 | 0 | 33,294 | 19,482 | 0 | 0 | -1 |
| Other items | 312 | 25,967 | 5,807 | 27 | 723 | 76,921 | 0 | 0 | 513,449 |
| **Total** | **2,752,861** | **3,475,142** | **1,210,770** | **137,799** | **3,262,579** | **4,079,973** | **55,493** | **137,107** | **520,876** |

* Equity exposures: a new category of exposure introduced by the new CRR directive and in effect since 1.1.2014

at 31 December 2013: in EUR thousand

| Category of exposure | CG | NP | IN | PS | CO LARGE | CO SME | MDB | RG | Other |
|---|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | 2,837,464 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 121,808 | 0 |
| Public sector entities | 0 | 0 | 0 | 140,778 | 0 | 0 | 0 | 0 | 0 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 33,717 | 0 | 0 |
| Institutions | 0 | 0 | 781,408 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corporates | 0 | 0 | 0 | 0 | 2,580,338 | 1,904,901 | 0 | 0 | 924 |
| Retail | 0 | 2,799,733 | 0 | 0 | 158 | 926,234 | 0 | 0 | 0 |
| Secured by mortgages on immovable property | 0 | 406,403 | 0 | 0 | 140,198 | 121,441 | 0 | 0 | 0 |
| Exposures in default | 233 | 141,569 | 24,842 | 22 | 227,574 | 923,499 | 0 | 2,579 | 0 |
| Items associated with particular high risk | 0 | 14,252 | 1,736 | 66 | 385,862 | 463,134 | 0 | 439 | 0 |
| Covered bonds | 0 | 0 | 18,483 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity* | - | - | - | - | - | - | - | - | - |
| Other items | 506,985 | 16,516 | 3,830 | 11 | 82,011 | 48,860 | 0 | 1 | 599,089 |
| **Total** | **3,344,682** | **3,378,473** | **830,299** | **140,877** | **3,416,141** | **4,388,070** | **33,717** | **124,827** | **600,013** |

* Equity exposures: a new category of exposure introduced by the new CRR directive and in effect since 1.1.2014.

Key:

| | |
|---|---|
| CG – central governments | CO LARGE – large companies (pursuant to the Companies Act) |
| NP – natural persons | CO SME – small and medium-sized companies (pursuant to the Companies Act) |
| IN – institutions | MDB – multilateral development banks |
| PS – public sector | RG – regional governments |

The distribution of exposure categories by type of client reveals that exposures in default mainly included corporates (93.1%, at the end of 2013: 87.2%), of which SMEs 64.2% and large companies 28.9%, followed by natural persons (6.9%, at the end of 2013: 10.7%).

Items associated with particular high risk also largely fall in the category of corporates (89.7%, at the end of 2013: 98.1%), while the rest of this category of receivables belongs to retail clients (8.5%, at the end of 2013: 1.6%). The increase in the share of retail clients in this category results from the fall in the amount of exposure of corporates in this category due to the above-mentioned change in the legislation.

Retail exposure includes receivables from natural persons (77.5%, at the end of 2013: 75.1%) and SMEs (22.5%, at the end of 2013: 24.9%).

Exposures by category of exposure and industry:

at 31 December 2014: in EUR thousand

| Category of exposure | Individuals | Ministries (public sector) | Heavy industry | Trade | Finance | Transport and storage | Other business activities | Construction | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | 0 | 2,752,548 | 0 | 0 | 412 | 0 | 0 | 0 | 475 | 2,753,435 |
| Regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 19 | 0 | 137,088 | 137,107 |
| Public sector entities | 0 | 0 | 1,504 | 32 | 57,663 | 26,007 | 15 | 1,860 | 50,515 | 137,596 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 55,493 | 0 | 0 | 0 | 0 | 55,493 |
| Institutions | 0 | 0 | 0 | 0 | 1,172,157 | 0 | 0 | 0 | 0 | 1,172,157 |
| Corporates | 0 | 0 | 856,809 | 670,221 | 182,784 | 742,843 | 642,321 | 181,651 | 812,686 | 4,089,315 |
| Retail | 2,856,663 | 0 | 179,195 | 271,542 | 5,690 | 63,290 | 20,656 | 92,175 | 195,924 | 3,685,135 |
| Secured by mortgages on immovable property | 435,015 | 0 | 98,071 | 29,671 | 4,792 | 18,769 | 238 | 4,877 | 45,730 | 637,163 |
| Exposures in default | 150,515 | 0 | 416,056 | 541,702 | 54,169 | 41,560 | 24,908 | 398,065 | 549,448 | 2,176,423 |
| Items associated with particular high risk | 6,983 | 0 | 15,033 | 19,511 | 4,064 | 394 | 27 | 12,095 | 23,680 | 81,787 |
| Covered bonds | 0 | 0 | 0 | 0 | 30,896 | 0 | 0 | 0 | 0 | 30,896 |
| Equity* | 0 | 0 | 104 | 17,945 | 15,494 | 4,545 | 0 | 2 | 14,795 | 52,885 |
| Other items | 25,967 | 312 | 237 | 354 | 19,379 | 19 | 5,985 | 0 | 570,954 | 623,207 |
| **Total** | **3,475,143** | **2,752,860** | **1,567,009** | **1,550,978** | **1,602,993** | **897,427** | **694,169** | **690,725** | **2,401,295** | **15,632,600** |

* Equity exposures: a new category of exposure introduced by the new CRR directive and in effect since 1.1.2014

at 31 December 2013: in EUR thousand

| Category of exposure | Individuals | Ministries (public sector) | Heavy industry | Trade | Finance | Transport and storage | Other business activities | Construction | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | 0 | 2,837,464 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,837,464 |
| Regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 44 | 353 | 121,411 | 121,808 |
| Public sector entities | 0 | 0 | 355 | 0 | 58,996 | 26,120 | 2 | 1,986 | 53,319 | 140,778 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 33,717 | 0 | 0 | 0 | 0 | 33,717 |
| Institutions | 0 | 0 | 0 | 0 | 781,408 | 0 | 0 | 0 | 0 | 781,408 |
| Corporates | 0 | 0 | 953,149 | 725,707 | 141,111 | 779,871 | 736,053 | 224,592 | 925,680 | 4,486,163 |
| Retail | 2,799,733 | 0 | 200,832 | 301,327 | 7,723 | 65,496 | 58,696 | 84,212 | 208,104 | 3,726,124 |
| Secured by mortgages on immovable property | 406,403 | 0 | 123,535 | 31,892 | 1,796 | 23,299 | 317 | 6,734 | 74,066 | 668,043 |
| Exposures in default | 141,569 | 233 | 227,949 | 313,175 | 35,217 | 24,281 | 23,221 | 218,243 | 336,429 | 1,320,318 |
| Items associated with particular high risk | 14,252 | 0 | 156,373 | 194,004 | 53,347 | 25,952 | 4,853 | 225,279 | 191,429 | 865,489 |
| Covered bonds | 0 | 0 | 0 | 0 | 18,483 | 0 | 0 | 0 | 0 | 18,483 |
| Equity* | - | - | - | - | - | - | - | - | - | - |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,257,304 | 1,257,304 |
| **Total** | **3,361,957** | **2,837,697** | **1,662,193** | **1,566,106** | **1,131,798** | **945,020** | **823,187** | **761,397** | **3,167,743** | **16,257,099** |

* Equity exposures: a new category of exposure introduced by the new CRR directive and in effect since 1.1.2014.

Significant in terms of exposure are Individuals (22.2%, at the end of 2013: 20.7%) and Ministries, including the public administration (17.6%, at the end of 2013: 17.5%), whereas in industries the largest concentration is that in Heavy industry, Trade and Finance.

The major portion of exposures in default and items associated with particular high risk is accounted for by Construction (59.4%, 1.1 p.p. higher compared to the end of 2013), followed by Trade with 36.2% (3.8 p.p. higher than at the end of 2013). The increase in the shares of exposures in default and items associated with particular high risk primarily results from the fall in the total exposure in the branches and not necessarily growth in both segments of exposure.

## 6.4. Residual maturity breakdown of all the exposures, broken down by exposure classes

(Article 442(f) of Regulation (EU) no. 575/2013)

Overview of exposures, the amount in default more than 90 days and the amount of provisions by category of exposure:

in EUR thousand

| Category of exposure | Remaining maturity | 31.12.2014 | | | 31.12.2013 | | |
|---|---|---|---|---|---|---|---|
| | | Exposure value | Amount in delay over 90 days | Amount of established impairments and provisions | Exposure value | Amount in delay over 90 days | Amount of established impairments and provisions |
| Central governments or central banks | Long-term | 863,207 | 17 | 35 | 787,183 | 0 | 534 |
| | Short-term | 1,890,229 | 28 | 2,919 | 2,050,281 | 0 | 789 |
| Regional governments or local authorities | Long-term | 50,147 | 119 | 3,353 | 35,302 | 0 | 1,194 |
| | Short-term | 86,959 | 1,342 | 5,476 | 86,506 | 0 | 3,655 |
| Public sector entities | Long-term | 34,345 | 0 | 843 | 81,691 | 0 | 2,874 |
| | Short-term | 103,250 | 240 | 6,427 | 59,086 | 0 | 3,588 |
| Multilateral Development Banks | Long-term | 18,867 | 0 | 0 | 23,378 | 0 | 0 |
| | Short-term | 36,626 | 0 | 0 | 10,339 | 0 | 0 |
| Institutions | Long-term | 230,809 | 18,234 | 16,646 | 202,140 | 0 | 10,041 |
| | Short-term | 941,348 | 12,091 | 8,018 | 579,268 | 0 | 4,591 |
| Corporates | Long-term | 1,613,175 | 66 | 52,926 | 1,795,806 | 35 | 129,529 |
| | Short-term | 2,476,139 | 63 | 207,203 | 2,690,357 | 332 | 262,040 |
| Retail | Long-term | 1,264,484 | 531 | 34,596 | 1,493,623 | 434 | 52,668 |
| | Short-term | 2,420,651 | 1,393 | 62,315 | 2,232,501 | 1,072 | 69,602 |
| Secured by mortgages on immovable property | Long-term | 351,000 | 1 | 8,667 | 345,880 | 0 | 7,464 |
| | Short-term | 286,163 | 2 | 14,859 | 322,163 | 1 | 17,324 |
| Exposures in default | Long-term | 739,307 | 602,676 | 506,469 | 482,597 | 433,119 | 323,119 |
| | Short-term | 1,437,117 | 1,060,053 | 954,147 | 837,721 | 591,925 | 607,833 |
| Items associated with particular high risk | Long-term | 15,135 | 5,331 | 11,431 | 339,939 | 279,106 | 236,768 |
| | Short-term | 66,652 | 15,729 | 33,410 | 525,550 | 315,643 | 321,765 |
| Covered bonds | Long-term | 9,286 | 0 | 0 | 6,503 | 0 | 0 |
| | Short-term | 21,609 | 0 | 0 | 11,980 | 0 | 0 |
| Equity* | Long-term | 58 | 0 | 0 | - | - | - |
| | Short-term | 52,827 | 0 | 0 | - | - | - |
| Other items | Long-term | 3,544 | 2,397 | 501 | 77,144 | 2,221 | 499 |
| | Short-term | 619,664 | 8,920 | 9,458 | 1,180,160 | 6,105 | 6,992 |
| **Total** | | **15,632,600** | **1,729,232** | **1,939,699** | **16,257,099** | **1,629,994** | **2,062,868** |

* Equity exposures: a new category of exposure introduced by the new CRR directive and in effect since 1.1.2014

As evident from the above table, receivables more than 90 days in default are practically entirely classified among exposures in default and items associated with particular high risk. In these categories, delays are recorded both in short- and long-term exposures. At the end of 2014, 77.6% of the total provisions were set aside for these two categories (72.2% at the end of 2013).

## 6.5. Past due exposures and the volume of impairments for significant industries and significant geographical areas

(Article 442(g and h) of Regulation (EU) no. 575/2013)

The tables below present the amount of exposures with the amount of past due exposures for significant industries/significant geographical areas and in this scope the amount of value adjustment to impairments and provisions. All value adjustments shown belong to the group of special adjustments; the NLB Group does not establish general value adjustments.

Overview of exposures, the amount in default for more than 90 days and the amount of provisions by industry:

in EUR thousand

| Institutional sector | 31.12.2014 | | | 31.12.2013 | | |
|---|---|---|---|---|---|---|
| | Exposure value | Amount in delay over 90 days | Amount of established impairments and provisions | Exposure value | Amount in delay over 90 days | Amount of established impairments and provisions |
| Individuals | 3,475,142 | 147,524 | 172,108 | 3,361,521 | 149,079 | 174,713 |
| Ministries (public sector) | 2,752,861 | 72 | 2,954 | 2,837,697 | 233 | 1,326 |
| Finance | 1,602,994 | 61,801 | 84,624 | 1,131,931 | 87,879 | 123,695 |
| Heavy industry | 1,567,010 | 298,513 | 398,867 | 1,662,629 | 271,249 | 415,512 |
| Trade | 1,550,977 | 358,007 | 477,631 | 1,565,974 | 357,259 | 507,485 |
| Transport and storage | 897,427 | 41,168 | 53,459 | 945,020 | 43,490 | 57,058 |
| Other business activities | 694,169 | 30,672 | 23,649 | 823,187 | 22,833 | 29,619 |
| Construction | 690,726 | 339,050 | 272,073 | 761,397 | 291,940 | 293,625 |
| Unclassified* | 555,949 | 131 | 77 | 1,280,797 | 12,785 | 2,083 |
| Professional, scientific and technical activities | 296,192 | 56,075 | 67,260 | 313,484 | 55,098 | 70,337 |
| Real-estate operations | 276,751 | 106,922 | 135,992 | 285,665 | 90,355 | 103,973 |
| Electricity, gas and water | 256,804 | 44,946 | 20,618 | 283,787 | 23,146 | 51,225 |
| Services - accommodation and food | 222,604 | 94,455 | 68,704 | 238,194 | 98,745 | 70,090 |
| Information and communication services | 208,309 | 21,976 | 19,427 | 160,680 | 11,597 | 17,067 |
| General government and defence, compulsory social security | 187,194 | 1,467 | 11,876 | 168,757 | 2,220 | 10,014 |
| Agriculture, forestry and fishing | 139,876 | 85,315 | 80,674 | 146,961 | 82,131 | 86,106 |
| Water supply | 59,579 | 12,601 | 11,135 | 68,076 | 4,777 | 9,581 |
| Mining | 50,531 | 8,947 | 9,305 | 61,209 | 9,362 | 12,212 |
| Health care and social security | 45,600 | 687 | 8,093 | 45,691 | 693 | 6,604 |
| Cultural, entertainment and recreation activities | 42,328 | 12,955 | 15,061 | 63,236 | 12,517 | 15,803 |
| Services | 40,608 | 3,961 | 4,505 | 27,125 | 1,591 | 2,641 |
| Education | 18,969 | 1,988 | 1,605 | 23,903 | 842 | 1,921 |
| Activities of exterritorial organisations and bodies | 2 | 2 | 1 | 5 | 2 | 1 |
| Activities of households with employees | 0 | 0 | 0 | 174 | 174 | 174 |
| **Total** | **15,632,600** | **1,729,232** | **1,939,699** | **16,257,099** | **1,629,994** | **2,062,868** |

* In addition to other industries, "Unclassified" includes the categories of exposure "Other exposure categories" and offsets.

At the end of 2014, the amount in delay over 90 days was the highest in Trade, Industry and Construction, and consequently the highest impairments and provisions were made for these sectors. The amount of defaults increased the most in Construction. Compared to the previous year, the volume of provisions and impairments decreased, which largely resulted from the write-off of NPLs and partly also from the decrease in exposure.

Overview of exposures, the amount in default for more than 90 days and the amount of provisions by country:

in EUR thousand

| Country | 31.12.2014 | | | 31.12.2013 | | |
|---|---|---|---|---|---|---|
| | Exposure value | Amount in delay over 90 days | Amount of established impairments and provisions | Exposure value | Amount in delay over 90 days | Amount of established impairments and provisions |
| Slovenia | 8,810,497 | 516,063 | 650,164 | 9,685,962 | 455,103 | 654,396 |
| Macedonia | 1,246,681 | 69,503 | 127,766 | 1,193,291 | 62,678 | 127,990 |
| Bosnia and Herzegovina | 1,243,302 | 171,804 | 225,531 | 1,239,856 | 150,970 | 230,009 |
| Serbia | 785,713 | 285,400 | 348,289 | 914,422 | 263,301 | 378,559 |
| Montenegro | 746,009 | 224,537 | 174,314 | 772,625 | 200,567 | 187,388 |
| Germany | 494,703 | 16,079 | 14,049 | 329,389 | 15,582 | 14,438 |
| Kosovo | 458,593 | 12,941 | 30,972 | 480,402 | 12,349 | 27,439 |
| Croatia | 445,505 | 325,726 | 234,943 | 458,774 | 307,907 | 245,051 |
| Austria | 319,595 | 2,840 | 4,385 | 196,542 | 8,978 | 25,388 |
| Luxemburg | 155,734 | 0 | 148 | 115,117 | 1,550 | 2,819 |
| Netherlands | 147,534 | 659 | 23,659 | 107,831 | 24,427 | 48,787 |
| France | 143,780 | 2 | 30 | 111,871 | 27 | 29 |
| Belgium | 142,160 | 1 | 3,170 | 183,834 | 567 | 3,212 |
| Italy | 72,416 | 11,215 | 14,779 | 83,636 | 24,320 | 27,175 |
| Great Britain | 54,628 | 439 | 107 | 48,803 | 438 | 87 |
| Finland | 52,804 | 0 | 0 | 13,826 | 0 | 0 |
| Switzerland | 52,059 | 1 | 5,372 | 78,065 | 2,306 | 2,756 |
| Czech Republic | 40,954 | 28,162 | 26,024 | 62,975 | 44,078 | 37,082 |
| Sweden | 35,521 | 32 | 1 | 1,777 | 32 | 1 |
| United States of America | 33,625 | 933 | 803 | 55,363 | 1,299 | 1,773 |
| Denmark | 31,193 | 0 | 0 | 1,411 | 0 | 1 |
| Ukraine | 29,964 | 29,106 | 27,162 | 28,548 | 27,293 | 20,204 |
| Bulgaria | 27,529 | 26,245 | 23,943 | 30,961 | 19,361 | 23,558 |
| Slovakia | 20,413 | 5,514 | 1,873 | 12,851 | 5,277 | 2,018 |
| Australia | 12,641 | 0 | 0 | 3,684 | 0 | 1 |
| Other countries | 29,048 | 2,030 | 2,212 | 45,285 | 1,584 | 2,706 |
| **Total** | **15,632,600** | **1,729,232** | **1,939,699** | **16,257,099** | **1,629,994** | **2,062,868** |

At the end of 2014, the amount of receivables over 90 days past due accounted for 11.1% of the total exposure (10.0% at the end of 2013), and they are covered by provisions at 12.4% (a decrease of 0.3 p.p. compared to the end of 2013). In terms of default, prominent among significant geographical areas is the exposure in Croatia (the amount in default over 90 days is 73.1%), followed by Serbia (36.3%) and Montenegro (30.1%). Accordingly, the coverage of exposure by provisions is high in these areas (Croatia 52.7%, Serbia 44.3%, and Montenegro 23.4%). Compared to the previous year, the amount of receivables in default for more than 90 days increased the most in Serbia.

# 7. Use of ratings by external rating institutions (ECAI)

(Article 444(a, b, c and d) of Regulation (EU) no. 575/2013)

For the calculation of the capital requirement for credit risk, the NLB Group appointed the Fitch Ratings credit rating agency, which the ECB has estimated to be an eligible external credit assessment institution and prescribed the rules for comparing its assessments with the credit quality steps from the law. The credit assessments of this agency are used for the categories of exposure:
- to the central governments and central banks, and
- to institutions, including the exposure to institutions with short-term credit assessment.

The weight for each category of exposure is determined based on Article 136 of Regulation (EU) no. 575/2013.

In exposure categories for which a credit assessment institution was designated, the weight is assigned based on the financial instrument's rating. If such rating is not available, the higher of the weights applying to long-term credit rating of the debtor or other financial instruments of the same debtor or country is used. Weights are assigned to non-assessed financial instruments based on the prescribed increase in weight linked to the weight of other short-term instruments of the same debtor.

For categories of exposure for which a credit assessment institution was not appointed, the risk weight is assigned according to the prescribed legislation, meaning that it is assigned based on the rating of the debtor's country or specific rules applying to the respective exposure category.

# 8. Remuneration Policy

## 8.1. Information on the decision-making process used for determining the Remuneration Policy

(Article 450(a) of the Regulation (EU) no. 575/2013)

The decision-making process about the amendments and supplements to the Remuneration Policy involves the Management Board of the Bank, the Appointment and Remuneration Committee and the Supervisory Board, which also approves the Remuneration Policy.

The Policy of Remuneration for the Employees Performing Special Work (hereinafter: the Remuneration Policy) entered into force on 1.1.2012. In 2013, amendments were prepared referring to the definition of employees performing special work, who may according to authorisations assume certain risks, and to the definition of the body deciding on the payment of the annual variable part; these amendments were approved by the Supervisory Board in August 2013. In 2014, amendments were prepared to the Policy of Remuneration for Employees Performing Special Work, which mainly referred to the commitments of the European Commission; they were approved by the Supervisory Board on 12.11.2014 and applied as of 1.11.2014.

No outsourced staff participated in the formulation of the policy.

In 2014, the Appointment and Remuneration Committee (the main body for supervising remuneration) met eight times.

The composition and mandates of the Appointment and Remuneration Committee pursuant to Article 75 of the ZBan-1:

The Appointment and Remuneration Committee is composed of the following members: Tit A. Erker (Chairman), Gorazd Podbevšek (Member), Miha Košak (Member) and Dr Sergeja Slapničar (Member - until 23.1.2015).

The Committee discusses the key strategic issues and prepares proposals for resolutions to be adopted by the Supervisory Board that address the following areas:
- appointment and recalling of the Chairman and members of the Management Board;
- determining of the method of recruiting candidates for the Chairman and members of the Management Board and the method of selecting the Chairman and members of the Management Board;
- conclusion and contents of service contracts made with the Chairman and members of the Management Board;
- remuneration of the Chairman and members of the Management Board and determining the remuneration criteria;
- remuneration policies; and
- other issues which the Supervisory Board deems to fall within the terms of reference of the Committee.

The Remuneration Committee is, among other, responsible for the following as regards remuneration policies:
- preparing proposals of general principles of remuneration policies, including the formulating of opinions on individual aspects of remuneration policies;
- assessing the appropriateness of the established methodologies based on which the remuneration system promotes adequate risk, capital and liquidity management;
- preparing recommendations for the Supervisory Board on implementation of remuneration policies;
- preparing draft decisions about the remuneration of employees, including those affecting the Bank's risks and their management;
- assessing the adequacy of the outsourced adviser whose services the Supervisory Board commissioned to determine the remuneration policy of the Bank;
- revising the adequacy of general principles of the remuneration policies and their implementation;
- checking the consistency of the remuneration policies with the Bank's business policy over a long period; and
- direct supervision over remuneration of the categories of employees performing special work within the internal control system and other control functions.

## 8.2. Information on link between pay and performance

(Article 450(b) of the Regulation (EU) no. 575/2013)

The following financial and non-financial performance criteria shall be defined for assessing the performance of employees performing special work. Employees performing special work are entitled to the annual variable part of the salary based on their achievement of the financial and non-financial performance criteria.

Table below shows the variations in the payment of the variable part which depend on the achievement of the goals by the employees performing special work, and the amount of variable part to which employees performing special work are entitled in case the following are achieved:
- the goals of NLB d.d. (or the NLB Group),
- the goals of the organisational unit, or
- personal goals of the employee performing special work.

Presentation of possible variants for payment of the variable part

| Performance criterion | Achieving or exceeding the goals | Achieving or exceeding the goals | Achieving or exceeding the goals | Achieving or exceeding the goals | Achieving or exceeding the goals |
|---|---|---|---|---|---|
| 1. Goals of the NLB Group (for the Management Board and goals of NLB d.d. | Yes | No | Yes | No | Yes / No |
| 2. Goals of the organisational units | Yes | Yes | No | No | Yes / No |
| 3. Personal goals | Yes | Yes | Yes | Yes | No |
| Entitlement to the variable part of salary | Yes | Yes | Yes | Yes | No |
| Amount of the variable part of salary from: | For the Management Board and the front offices | For the Management Board and the front offices | For the Management Board and the front offices | For the Management Board and the front offices | |
| - Goals of the NLB Group /NLB d.d.<br>- Goals of the organisational units<br>- Personal goals | up to 2 salaries +<br>up to 2 salaries +<br>up to 1 salary<br>= up to 5 salaries in total | <br>up to 2 salaries +<br>up to 1 salary<br>= up to 3 salaries in total | up to 2 salaries +<br><br>up to 1 salary<br>= up to 3 salaries in total | <br><br>up to 1 salary<br>= up to 1 salary in total | No payment of the variable part |
| Amount of the variable part of salary from: | For other employees | For other employees | For other employees | For other employees | |
| - Goals of the NLB Group /NLB d.d.<br>- Goals of the organisational units<br>- Personal goals | up to 1 salary +<br>up to 1 salary+<br>up to 1 salary<br>= up to 3 salaries in total | <br>up to 1 salary+<br>up to 1 salary<br>= up to 2 salaries in total | up to 1 salary+<br><br>up to 1 salary<br>= up to 2 salaries in total | <br><br>up to 1 salary<br>= up to 1 salary in total | No payment of the variable part |

The table below defines the maximum possible remuneration of an employee based on the assessment of the achievement of an individual goal.

Definition of the amount of remuneration

| Performance grade | Business units | Non-business units | Business and non-business units |
|---|---|---|---|
| | Goals of NLB d.d. and organisational units | Goals of NLB d.d. and organisational units | Personal goals |
| 5 – all goals exceeded | up to 2 salaries | up to 1 salary | up to 1 salary |
| 4 – goals mostly exceeded | up to 1.5 salaries | up to 0.75 salary | up to 0.75 salary |
| 3 – goals achieved | up to 1 salary | up to 0.5 salary | up to 0.5 salary |
| 2 – goals partly not achieved | 0 | 0 | 0 |
| 1 – goals not achieved | 0 | 0 | 0 |

## 8.3. The essential components of the policy of remuneration for employees performing special work

(Article 450(c) of the Regulation (EU) no. 575/2013)

The salary of an employee performing special work shall consist of:
- a fixed part of the salary,
- a variable part of the salary which depends on:
  - performance of the NLB Group (for the Management Board) and NLB d.d. (for other employees performing special work)
  - performance of the organisational unit of the employee performing special work
  - individual performance of the employee performing special work.

The following criteria are applied to measuring the performance of employees performing special work:

**1. Goals of NLB d.d. and the NLB Group:**
The Management Board sets the goals of NLB d.d. and the NLB Group for each business year and the Supervisory Board approves them. The goals as defined for the NLB Group apply to the Management Board. For other employees performing special work the goals set for NLB d.d. shall apply. The maximum possible amount of the variable part of the salary, subject to achievement of NLB d.d. or the NLB Group goals, shall be two salaries for the Management Board and employees performing special work who are included in the business function, and one salary for other employees performing special work.

**2. Goals of the organisational unit of the employee performing special work:**
The concrete goals (which derive from the goals of NLB d.d.) of the organisational unit where the employee performing special work assumes risk are defined by their direct superior officer for each business year and include the following areas:
- business goals of the organisational unit,
- financial goals of the organisational unit (if specified).

The maximum amount of the variable part of the salary, subject to achievement of OU's goals, shall be two salaries for the Management Board and the employees performing special work who are included in a business function, and one salary for other employees performing special work.

**3. Personal goals of the employee performing special work (development, project and other goals).**
Personal goals of the employee mainly represent personal development and project goals.
The maximum amount of the variable part of the salary shall be one salary for other employees performing special work.

Financial and non-financial performance criteria must be included in at least one of the above groups of goals.

The Remuneration Policy stipulates that a decision whether the performance criteria have been achieved and the decision to pay the annual variable part of salary to the Management Board members are adopted by the Supervisory Board, whereas for other employees performing special work they are adopted by the Bank's Management Board. An employee is not entitled to the annual variable part of salary if they fail to achieve their personal goals, regardless of the fact of whether the goals of NLB d.d. and the goals of the OU have been achieved or not.

### Defining the goals of employees performing special work in 2014

Planning of the goals and the assessment of employees performing special work are conducted once a year; the planning of the goals is carried out by the end of January and the assessment of performance by the end of March or until the results of operations are known.

In 2014, the *goals of NLB d.d.* were approved by the Supervisory Board and were included in the forms for monitoring the performance for all employees performing special work. The goals for individual organisational units were defined top-down, which means that each member of the Management Board set goals for their directly subordinate employees performing special work and these set goals down the line of management. The goals of the organisational unit can be financial or non-financial and must be defined according to the SMART method, which means they have to be clear (specific), measurable (or verifiable), real, defined in terms of time and be worth the effort (acceptable). *Development goals* for all employees performing special work were set on an individual basis for each employee, depending on the assessment of the superior director or member of the Management Board regarding which field covered by the employee performing special work needs developing.

### Deferred payment of the variable part

In line with the decision of the European Commission on the state aid procedure, the variable part of salary of employees performing special work shall until the end of December 2017 be paid according to the following model:

- 50% is paid after the confirmation of the performance results at the Bank's General Meeting,
- 50% is paid after three years.

The deferred part of the variable part of the salary is aligned with growth in the consumer price index during the period of deferment.

After the period of deferment, the payment is made within three months of the confirmation of the performance results at the Bank's General Meeting.

Prior to the payment of the deferred variable part of the salary, NLB d.d. must check if all conditions for the payment of the deferred variable part of the salary have been met. The Management Board of the Bank may adopt a unilateral decision on the amount of the payment of the deferred variable part of the salary, namely:

- An employee performing special work is paid 100% of the deferred variable part of the salary in case the Bank's performance in the period of deferred payment shows no negative trends that would result from the decisions adopted by the employee performing special work and in the case there were no severe violations of the regulations and the Bank's internal regulations, abuses and inefficient acts by the employee performing special work during their work. When assessing these acts, NLB d.d. will act according to the zero tolerance principle and will consider as a severe violation of the regulations those acts that show signs of criminal offences, violations, a breach of obligations arising from employment and/or those acts that constitute a conflict of interest with the Bank's business interests as well as corruptive acts that constitute or reinforce non-transparency in adopting of business decisions while performing the functions in the Bank. All acts that are committed intentionally or from gross negligence and cause damage to the Bank are considered as inefficient conduct;
- An employee performing special work is not paid the deferred variable part of the salary in case the Bank's performance in the period of deferred payment shows material negative trends that result from the decisions adopted by the employee performing special work.

## 8.4. The ratio between fixed and variable remuneration

(Article 450(d) of the Regulation (EU) no. 575/2013)

The ratio between the variable and the fixed part of the salary depends on the function performed by each individual, namely:

- for the employees performing special work who are included in a business function the ratio between the fixed and the variable part of the salary can be 60% : 40% at the maximum;
- for the employees performing special work who are included in a joint and supervisory function the ratio between the fixed and the variable part of the salary can be 80% : 20% at the maximum.

The employment contract can stipulate a predetermined variable part of the salary of an employee performing special work only for the first year of their employment.

The Supervisory Board may request from a Member of the Management Board, and the Management Board can request from other employees performing special work to return the already paid variable part of the salary or its proportionate part (the third paragraph of Article 270 of the Companies Act (ZGD-1)):

- if the nullity of the annual report is established with a binding effect and the grounds for nullity refer to items or facts based on which the performance bonus was defined, or
- based on a special auditor's report establishing that the criteria for defining remuneration were applied incorrectly or that the critical accounting, financial and other data and indicators were incorrectly established or applied.

The maximum amount of the variable part of the salary for the annual distribution of the variable part of the salary is defined as follows:

- for employees performing special work who are included in a business function the maximum amount of the variable part of the salary can be five salaries of the employee performing special work;
- for other employees performing special work the maximum amount of the variable part of the salary can be three salaries of the employee performing special work.

During the time when NLB d.d. uses redeemable extraordinary aid granted by the Republic of Slovenia to overcome the extraordinary financial situation, the maximum amount of the variable part of the salary may be lower than the one defined in the first paragraph of this Article of Remuneration Policy, in accordance with the rules defined by the Bank of Slovenia in the secondary legislation.

Pursuant to the decision of the European Commission in relation to the state aid procedure[19], the maximum possible amount of the total income of an employee performing special work is limited to 15 times the average gross salary of employees in the Republic of Slovenia or 10 times the average gross salary of employees in NLB d.d. for the period of the Bank's restructuring, i.e. until the end of December 2017. The maximum amount of income is limited to the higher of the two indicated amounts.

The last known data of the Statistical Office of the Republic of Slovenia in the month of the payment of the variable part of the salary to the employee performing special work is used for calculation of the maximum amount of payment.

Data for December 2014:
MAX 15 salaries in the RS: EUR 1,566.09 x 15 x 12 months = EUR 23,491.35 x 12 = **EUR 281,896.20**
MAX 10 salaries in the NLB: EUR 2,096 x 10 x 12 months = EUR 20,960 X 12 = **EUR 251,520.00**

## 8.5. Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based

(Article 450(e) of the Regulation (EU) no. 575/2013)

The Bank does not pay the variable part of the salary in financial instruments as it considers it to be part of the salary which does not include other types of income (e.g. bonuses).

## 8.6. The main parameters and rationale for any variable component scheme and any other non-cash benefits

(Article 450(f) of the Regulation (EU) no. 575/2013)

The main parameters of variable components are specified in the employment contract according to the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD).

Other non-cash benefits are determined in the Rules on determining other rights under management employment contracts and other acts of the Bank.

[19] Commission Decision on state aid SA.33229(2012/C) (ex 2011/N) – Restructuring of NLB Slovenia.

## 8.7. Quantitative information on remuneration

(Article 450(g), (h) and (i) of the Regulation (EU) no. 575/2013)

The table below shows the remuneration for 2014, combined by business area.

| | MB Supervisory function | MB Management function | Investment banking | Retail banking | Asset management | Corporate functions | Independent control functions | All other |
|---|---|---|---|---|---|---|---|---|
| Members (Headcount) | 8 | 5 | | | | | | |
| Number of identified staff in FTE | | | 1.76 | 19.12 | 1.00 | 1.00 | 5.96 | 29.99 |
| Number of identified staff in senior management positions | | | 2 | 21 | 1 | 1 | 6 | 30 |
| Total fixed remuneration (in EUR) | 173,380 | 730,723 | 139,151 | 1,526,556 | 86,669 | 101,391 | 481,265 | 2,499,313 |
| Of which: fixed in cash | 173,380 | 730,723 | 139,151 | 1,526,556 | 86,669 | 101,391 | 481,265 | 2,499,313 |
| Of which: fixed in shares and share-linked instruments | - | - | - | - | - | - | - | - |
| Of which: fixed in other types instruments | - | - | - | - | - | - | - | - |
| Total variable remuneration (in EUR) | - | - | - | - | - | - | - | - |
| Of which: variable in cash | - | - | - | - | - | - | - | - |
| Of which: variable in shares and share-linked instruments | - | - | - | - | - | - | - | - |
| Of which: variable in other types instruments | - | - | - | - | - | - | - | - |
| Total amount of variable remuneration awarded in year N which has been deferred (in EUR) | - | - | - | - | - | - | - | - |
| Of which: deferred variable in cash in year N | - | - | - | - | - | - | - | - |
| Of which: deferred variable in shares and share-linked instruments in year N | - | - | - | - | - | - | - | - |
| Of which: deferred variable in other types of instruments in year N | - | - | - | - | - | - | - | - |
| **Additional information regarding the amount of total variable remuneration** | | | | | | | | |
| Total amount of outstanding deferred variable remuneration awarded in previous periods and not in year N (in EUR); Art 450 h(iii)CRR; | - | - | - | - | - | - | - | - |
| Total amount of explicit ex post performance adjustment applied in Year N for previously awarded remuneration (in EUR); Art 450 h(iv)CRR; | - | - | - | - | - | - | - | - |
| Number of beneficiaries of guaranteed variable remuneration (new sign on payments); Art 450 h(iv) CRR; | - | - | - | - | - | - | - | - |
| Total amount of guaranteed variable remuneration (new sign on payments) (in EUR); Art 450 h(v)CRR; | - | - | - | - | - | - | - | - |
| Number of beneficiaries of severance payments; Art 450 h(vI)CRR; | - | - | - | - | - | - | - | - |
| Total amount of severance payments paid in year N (in EUR); Art 450 h(vi)CRR; | - | - | - | - | - | - | - | - |
| Art 450 h(v) Highest severance payment to a single person (in EUR); Art 450 h(vi)CRR; | - | - | - | - | - | - | - | - |
| Number of beneficiaries of contributions to discretionary pension benefits in year N | - | - | - | - | - | - | - | - |
| Total amount of discretionary pension benefits (in EUR) in year N | - | - | - | - | - | - | - | - |
| Total amount of variable remuneration awarded for multi- year periods under programmes which are not revolved annually (in EUR) | - | - | - | - | - | - | - | - |

No individual received more than EUR 1 million in remuneration.

# 9. Measures and procedures adopted to re-establish the Bank's reputation

(Order of the Bank of Slovenia on additional measures to comply with the risk management rules)

**The systematic and structured process of determining the reasons for the occurrence of non-performing loans,** which the NLB started implementing in 2012, continued in 2014. This process also includes the examination and investigation of any suspicions of criminal offences and liability for damages of individuals. With regard to the findings of the thorough review, by the end of 2014 we had identified several factors contributing to the reasons for the occurrence of NPLs and directly included them in the reorganisation of the business processes.

In this process, in 2014 the Bank established suspicions of different criminal offences and reported to the law enforcement authorities 64 cases of suspected criminal offences related to individual loans. In 2014, the Bank filed two claims for damages against nine persons.

An intensive review of the portfolio of the biggest problem clients with the establishment of the responsibility for the losses is continuing in 2015.

Considering the established reasons for the occurrence of NPLs, the NLB is taking **appropriate measures to redesign the business processes in order to prevent similar losses in the future**. The activities carried out by the end of the previous year were the following:

1. A changed credit process was implemented in 2013, with an emphasis on responsibility and tasks in the area of credit risk management. The change was supplemented by the new credit rating classification methodology, which applied good business practice and in addition to the analysis of past operations put a special emphasis on the future operations and cash flow analysis. The transfer of decision-making to the Credit Analysis Department within the credit process contributed to the significantly improved knowledge of clients, purpose and structure of transactions and the understanding of the form and volume of the necessary collateral in view of the risk arising from the client and transaction.
2. The Bank carried out client segmentation in the area of legal persons and sole proprietors in 2013. The objective of the segmentation of legal entities and professionals is to guarantee optimal treatment of each of the client segments in the area of legal entities and professionals which will be efficient and target-oriented. This also ensures the appropriate treatment of each corporate client segment in terms of credit risk management (e.g. the credit rating of small enterprises is determined by a scoring model). The Bank established the Rules on the Segmentation of Legal Persons and Sole Proprietors, whose purpose is to give the business lines clear criteria and guidelines for client segmentation and the transfer of clients between organisational units. In 2014, the subsegments in the small enterprises segment were defined and consequently the Standard subsegment was transferred to the Distribution Network for treatment.
3. Organisational changes were made in order to clearly define the missions linked with individual client segments. The small enterprises segment was reorganised, branches offices and the mobile banking centre were integrated into Small Enterprises. Thereby, the Bank is pursuing the goal of approaching clients and their operations as well as appropriately managing risks.
4. In 2014, organisational changes were also made in investment and asset assessments. The tasks of the Investment Evaluation were transferred to the Valuation and Control Department and the Corporate and Retail Credit Analysis Department.
5. Since the establishment of the early warning system (EWS), the Bank has ensured that the system has been functioning in an up-to-date way and that it has been constantly improved. The purpose of the early warning system for the detection of increased credit risk in NLB d.d. is primarily to collect and process various information about a client that may indicate increased credit risk in relation to the client. The secondary purpose of the EWS is to ensure further actions if increased credit risk is detected. These actions comprise the transfer of the client to one of the lists, either the Watch list of NLB d.d. or the Intensive Care List of NLB d.d. and, if necessary, the transfer of its handling to a specialised unit within the Intensive Care and Non-Performing Loan Management or the Restructuring Department.

6. The Committee for monitoring the clients on the watch list and the intensive care list was established in May 2013. This Committee is one of the key elements in the process of identifying increased credit risk, constituting the final decision-making stage where clients are classified based on the findings made by means of the early warning system for the detection of increased credit risk (EWS). The Committee issues opinions and guidelines and proposes activities in the early elimination of problems identified on the side of the client. Thus, the potential loss of the Bank decreases. The Committee comprises various knowledge and thus the efficiency of client resolution is improving. The Committee also checks the efficiency of the Bank's plans of activities in relation to an individual client on the watch list or in intensive care.
7. The scoring model started being introduced in 2013. The purpose of the model is to increase the objectivity of the credit rating classification and to optimise the credit process. The intensive development continued in 2014.
8. The Policy on Contractual Covenants was formulated in 2014. The goal and objective of the Policy on Contractual Covenants of NLB d.d. are to set up a decision-making framework for the integration of commitments in the loan agreements with the aim of managing credit risks. A contractual commitment primarily represents a limitation for the client, requiring from them to (not) achieve certain conditions which the Bank assesses as milestones for a higher credit risk. If the commitments are not achieved, this is an early warning signal for the Bank that the credit risk has increased and this usually leads to the need for mitigation measures. These comprise obtaining of additional collateral, more frequent monitoring of operations, preparation of the measures for realising commitments, other modifications in the agreement or, in the ultimate case, termination of an agreement.
9. The Methodology of credit rating classification of banks and banking groups and setting limit structure for banks and banking groups with the NLB d.d. and the NLB Group and the Methodology of credit rating classification and setting of debt ceilings for central state and central bank level units were revised in 2014.
10. The activities for centralisation of the paper archive started in 2014. The investment documents, which have to be kept in the original form, are submitted from the front office to the centralised archive in the Corporate Banking Back Office. The introduction is gradual, by the inclusion of individual organisational units.
11. In 2014, the Bank decided to centralise the collection by telephone for clients in Small Enterprises, which is carried out in the Client Support Department and Contact Centre.
12. In collateralisation, we established an on-line connection with the Surveying and Mapping Authority of the Republic of Slovenia in the scope of the collateralisation procedure, enabling the direct and immediate checking of the existence of collateral. By providing access to official data we decrease the risk of inappropriate collateral.

Special attention was paid this year to **strengthening the integrity of the Bank and the people who represent it**. In order to achieve this, we conducted training for the management staff and e-training for personnel. We realise that awareness-raising and strengthening of integrity are an on-going training process, which is why we are continuing with individual visits to the Bank's branches.

According to the EBA guidelines, the Bank assesses the suitability of all key function holders (Fit & Proper) and therefore assigns to key positions persons who fulfil the conditions specified in the Bank's policy, which means they have adequate experience and education and are also suitable in terms of reputation and ethics.

With the aim of improving past practice, the Bank established a documented and structured system of internal investigation of suspected misconduct and action taking. If damage has been caused to the Bank and suitable grounds exist, the Bank files criminal charges and civil actions.

In the scope of this process, a commitment was made to protect the whistle-blower, whereby the Bank assures that employees can feel completely safe and without fear of retaliation when they wish to talk, bona fide and by relaying accurate and complete information, about any suspicions of harmful conduct, or participate in internal investigations.

In the past year, the Bank also adopted and upgraded the following internal acts which serve as guidance to employees in unusual situations, namely the Rules on a conflict of interest in investment services, purchasing and the processes of granting or restructuring loans, the Rules on the incompatibility of offices of the management board members, top management and other employees, the Guidelines about the limitation of giving and receiving gifts by employees of NLB d.d., and the Guidelines on the prevention of corruption and conflicts of interest.

**Participation in wider social and professional initiatives for strengthening fair and lawful conduct of business** results in the Bank becoming involved in collective activities in the environment where it operates. The Bank wishes to consolidate its competitive abilities and achieve good business results based on the principles of ethics and good practice in this area. For the purpose of more uniform standards in the market and to achieve a fairer and more efficient competitive environment, in 2014 the Bank joined the initiatives to raise the general standards of the fair, transparent and lawful conduct of business in Slovenia.

At the economic summit on 14 October 2014 at Brdo pri Kranju, **the NLB formally adopted the Slovenian corporate integrity guidelines**, and thus became one of the 28 ambassadors of corporate integrity. The Bank is making extensive and continuous investments in expressing and promoting values and integrity – this is the basic operating focus of the company, the CEO and the entire Management Board.

The guidelines comprise the principles of internationally established professional standards and good practice in the assurance of compliance and ethical conduct of business. Of the fourteen (14) elements of the corporate integrity system, the Bank provides already eight (8) completely according to the model of best practice, namely: Commitment, Strategy, Authorised Person, Code, Anti-Corruption Clause, Protection of Whistle-Blowers, Response to Reports, and Adequacy and Fit&Proper Management Staff. Four (4) elements are already present in the corporate integrity system and are also subject to the process of consolidation and upgrading, namely: Professional Assistance (consulting), Motivation, Internal Supervision, Transparency and Reporting. One element in the corporate integrity system has so far been paid less attention to and in the following period the Bank has yet to establish it, namely the Business Partners segment (due diligence reviews of contractual partners in the light of compliance and integrity risks). In 2015, the Bank will also focus on the procedures for identifying and assessing risks in corporate integrity and introducing minimum compliance standards in the NLB Group. The NLB will continue the activities of training and awareness-raising within the Bank and in its direct environment, based on past practices and efforts.

On the evening preceding International Anti-Corruption Day, 8 December 2014, the **NLB became the 51st party to formally sign the Declaration on Fair Business** of the UN Global Compact of Slovenia, and on this occasion organised an event for the wider economic and especially financial professional public, entitled: "The practices of fair and legally compliant business as a competitive advantage of financial institutions today". Under the Declaration, the Bank undertakes to include in its large-amount agreements an anti-corruption clause and to above all strive to conduct business fairly and transparently, and to inform its business partners thereof. The Bank further undertakes to strive to strengthen its compliance and integrity programme following the model of good practice and the PACI principles (Partnering against Corruption Initiative).

# 10. The list of all disclosures required under Part 8 of the Regulation (EU) no. 575/2013

| Article | Requirement | Section of Annual Report | Chapter |
|---|---|---|---|
| **435** | **Risk management objectives and policies** | | |
| **1.** | **Objectives and policies regarding the relevant risks** | | |
| | (a) the strategies and processes to manage those risks; | AFS | 7.a |
| | (b) the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements; | AFS | 7.b |
| | (c) the scope and nature of risk reporting and measurement systems; | AFS | 7.c |
| | (d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants; | AFS | 7.a |
| | (e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy; | RP | Statement on management, point 3 |
| | (f) a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body. | RP | Statement on management, point 3 |
| **2.** | **Information, including regular, at least annual updates, regarding governance arrangements** | | |
| | (a) the number of directorships held by members of the management body; | BR | Corporate governance, the Management Board |
| | (b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise; | BR | Corporate governance, the Management Board |
| | (c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved; | BR | Corporate governance, the Management Board |
| | (d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met; | BR | Corporate governance, the Supervisory Board |
| | (e) the description of the information flow on risk to the management body. | AFS | 7.a |
| **436** | **Scope of application** | | |
| | (a) the name of the institution to which the requirements of this Regulation apply; | RCM | 2. |
| | (b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted; | RCM | 2. |
| | (c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries; | RCM | 2. |
| | (d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries; | RCM | 2. |
| | (e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9. | / | / |
| **437** | **Capital (Own funds)** | | |
| | (a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution; | RCM | 2., 3.2. |
| | (b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution; | RCM | 3.3. |
| | (c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments; | RCM | 3.3. |
| | (d) separate disclosure of the nature and amounts of the following:<br>(i) each prudential filter applied pursuant to Articles 32 to 35;<br>(ii) each deduction made pursuant to Articles 36, 56 and 66;<br>(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79; | RCM | 3.4. |
| | (e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply; | RCM | 3.4. |
| | (f) where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated. | RCM | 3.1. |

| Article | Requirement | Section of Annual Report | Chapter |
|---|---|---|---|
| 438 | **Capital requirements** | | |
| | (a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities; | RCM | 4.1. |
| | (b) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU; | / | / |
| | (c) (SA approach:) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= SA categories); | RCM | 4.2. |
| | (d) (IRB approach:) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2). | / | / |
| | (e) (market risks:) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3); (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk; | RCM | 4.2. |
| | (f) (operational risk:) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately. | RCM | 4.2. |
| 439 | **Exposure to counterparty credit risk** | | |
| | (a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures; | RCM | 5.1. |
| | (b) a discussion of policies for securing collateral and establishing credit reserves; | RCM | 5.2. |
| | (c) a discussion of policies with respect to wrong-way risk exposures; | RCM | 5.3. |
| | (d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating; | / | / |
| | (e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements; | RCM | 5.4. |
| | (f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable; | RCM | 5.1. |
| | (g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure; | / | / |
| | (h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group; | / | / |
| | (i) the estimate of $\alpha$ if the institution has received the permission of the competent authorities to estimate $\alpha$. | / | / |
| | **Capital buffers** | | |
| 440 | **Countercyclical capital buffer:**<br>(a) the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer; | / | / |
| | (b) the amount of its institution specific countercyclical capital buffer. | / | / |
| 441 | **G-SII buffer:**<br>1. Institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU shall disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article. | / | / |
| 442 | **Credit risk adjustments** | | |
| | (a) the definitions for accounting purposes of 'past due' and 'impaired'; | AFS | 2.13.a |
| | (b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments; | AFS | 2.13.a |
| | (c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes; | RCM | 6.1. |
| | (d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate; | RCM | 6.2. |
| | (e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate; | RCM | 6.3. |
| | (f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate; | RCM | 6.4. |
| | (g) by significant industry or counterparty type, the amount of:<br>(i) impaired exposures and past due exposures, provided separately;<br>(ii) specific and general credit risk adjustments;<br>(iii) charges for specific and general credit risk adjustments during the reporting period; | RCM | 6.5. |
| | (h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area; | RCM | 6.5. |
| | (i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise:<br>(i) a description of the type of specific and general credit risk adjustments;<br>(ii) the opening balances;<br>(iii) the amounts taken against the credit risk adjustments during the reporting period;<br>(iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments;<br>(v) the closing balances. | AFS | 5.14 |
| | Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately. | AFS | 7.1 j,k,l, 5.14 |

| Article | Requirement | Section of Annual Report | Chapter |
|---|---|---|---|
| 443 | **Unencumbered assets** | | |
| | EBA shall issue guidelines specifying the disclosure of unencumbered assets by 30 June 2014.<br>EBA shall develop draft regulatory technical standards to specify disclosure of the balance sheet value per exposure class broken down by asset quality and the total amount of the balance sheet value that is unencumbered. | AFS | 7.2.4.d |
| 444 | **Use of ECAIs** | | |
| | (a) the names of the nominated ECAIs and ECAs and the reasons for any changes; | RCM | 7. |
| | (b) the exposure classes for which each ECAI or ECA is used; | RCM | 7. |
| | (c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book; | RCM | 7. |
| | (d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA; | RCM | 7. |
| | (e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds. | RCM | 6.1. |
| 445 | **Exposure to market risk** | | |
| | Separately for each risk + the own funds requirement for specific interest rate risk of securitisation positions. | RCM | 4.2. |
| 446 | **Operational risk** | | |
| | Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used. | AFS | 7.3.a |
| 447 | **Exposures in equities not included in the trading book** | | |
| | (a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices; | AFS | 5.4.b |
| | (b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value; | AFS | 2.12.b, 5.4. |
| | (c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures; | AFS | 5.4.a |
| | (d) the cumulative realised gains or losses arising from sales and liquidations in the period; and | AFS | 5.4.b, 5.8. |
| | (e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds. | RCM | 3.2. |
| 448 | **Exposure to interest rate risk on positions not included in the trading book** | | |
| | (a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk; | AFS | 7.2.1.c |
| | (b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency. | AFS | 7.2.1.c |
| 449 | **Exposure to securitisation positions** | / | / |
| 450 | **Remuneration policy** | | |
| | For those categories of staff whose professional activities have a material impact on its risk profile:<br>(a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders; | RCM | 8.1. |
| | (b) information on link between pay and performance; | RCM | 8.2. |
| | (c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria; | RCM | 8.3. |
| | (d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU; | RCM | 8.4. |
| | (e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based; | RCM | 8.5. |
| | (f) the main parameters and rationale for any variable component scheme and any other non-cash benefits; | RCM | 8.6. |
| | (g) aggregate quantitative information on remuneration, broken down by business area; | RCM | 8.7. |
| | (h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:<br>(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;<br>(ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;<br>(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;<br>(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;<br>(v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments;<br>(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person; | RCM | 8.7. |
| | (i) the number of individuals being remunerated with EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million; | RCM | 8.7. |
| | (j) upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management. | AFS | 8.2. |

| Article | Requirement | Section of Annual Report | Chapter |
|---|---|---|---|
| **451** | **Leverage** | | |
| | (a) the leverage ratio and how the institution applies Article 499(2) and (3); | / | / |
| | (b) a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements; | / | / |
| | (c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11); | / | / |
| | (d) a description of the processes used to manage the risk of excessive leverage; | / | / |
| | (e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers. | / | / |
| **452** | **Use of the IRB Approach to credit risk** | / | / |
| **453** | **Use of credit risk mitigation techniques** | | |
| | (a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off- balance sheet netting; | / | / |
| | (b) the policies and processes for collateral valuation and management; | AFS | 7.1. f, g |
| | (c) a description of the main types of collateral taken by the institution; | AFS | 7.1. h |
| | (d) the main types of guarantor and credit derivative counterparty and their creditworthiness; | / | / |
| | (e) information about market or credit risk concentrations within the credit mitigation taken; | AFS | 7.1. i |
| | (f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral; | / | / |
| | (g) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155. | / | / |
| **454** | **Use of the Advanced Measurement Approaches to operational risk** | / | / |
| **455** | **Use of Internal Market Risk Models** | / | / |
| **492** | **Transitional provisions for disclosure of own funds** | | |
| 2 | During the period from 1 January 2014 to 31 December 2015, institutions shall disclose the extent to which the level of Common Equity Tier 1 capital and Tier 1 capital exceed the requirements laid down in Article 465. | RCM | 3 |
| 3 | During the period from 1 January 2014 to 31 December 2017, institutions shall disclose the following additional information about their own funds:<br>(a) the nature and effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479;<br>(b) the amounts of minority interests and Additional Tier 1 and Tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds in accordance with Section 4 of Chapter 1;<br>(c) the effect on Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and own funds of the individual filters and deductions applied in accordance with Article 481;<br>(d) the nature and amount of items that qualify as Common Equity Tier 1 items, Tier 1 items and Tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2. | RCM | 3.4 |
| 4 | During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484. (capital instruments, that are not eligible under new legislation, but can be gradually excluded) | / | / |

Key:

AFS – Audited financial statements

RCM – Risk and capital management

RP – Regulatory part

BR – Business Report

# NLB GROUP DIRECTORY

**Nova Ljubljanska banka d.d., Ljubljana**
Trg republike 2
1520 Ljubljana, Slovenia
Tel: +386 1 476 39 00
Fax: +386 1 252 25 00,
E-mail: info@nlb.si
www.nlb.si
Janko Medja, Chairman of the Management Board
Archibald Kremser, Member of the Management Board
Andreas Burkhardt, Member of the Management Board
Blaž Brodnjak, Member of the Management Board

**Foreign Network**

**Trieste Branch**
Strada per Vienna 55/1
34151 Trieste, Italy
Tel: +39 040 67287 11
Fax: +39 040 67287 99
www.nlb.it
Vito Cigoj, Director

**Slovenian Network**

**Osrednjeslovenska - Jug Branch**
Trg republike 2
1000 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, Slovenija
Tel: +386 1 724 55 01
Fax: +386 1 724 53 09

**Savinjsko-Koroška Branch**
Rudarska cesta 3
3320 Velenje, Slovenia
Tel: +386 3 899 52 56
Fax: +386 3 899 51 40

**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 in Notranjska Branch**
Pristaniška 45
6000 Koper, Slovenia
Tel: +386 5 610 30 10
Fax: +386 5 627 65 08

**Private Banking Sector**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 23 66
Fax: +386 1 476 23 33

**Small Enterprises**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 21 02
Fax: +386 1 476 23 26

**MID CORPORATES**

**Central Slovenia**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 26 11
Fax: +386 1 251 05 72

**East Slovenia**
Kocenova 1
3000 Celje, Slovenia
Tel: +386 3 424 01 11
Fax: +386 3 544 24 66

**West Slovenia**
Pristaniška 45
6000 Koper, Slovenia
Tel: +386 5 610 30 10
Fax: +386 5 610 30 75

**LARGE CORPORATES**

**Institutional Investors**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 24 92
Fax: +386 1 252 24 61

**Large Corporates**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 26 28
Fax: +386 1 425 51 90

**MEMBERS OF THE NLB GROUP**

**NLB banka a.d., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 100
Fax: +381 11 22 25 194
E-mail: info@nlb.rs
www.nlb.rs
Branko Greganovič, Chairman of the Executive Board
Vlastimir Vuković, Member of the Executive Board

**NLB Montenegrobanka 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
Anton Ribnikar, CEO
Robert Kleindienst, Executive Director
Dino Redžepagić, Executive Director

**NLB Prishtina sh.a., Prishtina**
Rr. Kosta Novakovic p.n.
10000 Pristina, Kosovo
Tel: +381 38 744 000
Fax: +381 38 610 112
+381 38 225 871
E-mail: info@nlbprishtina-kos.com
www.nlbprishtina-kos.com
Albert Lumezi, Chairman of the Management Board
Bogdan Podlesnik, Member of the Management Board
Lavdim Koshutova, Member of the Management Board

**NLB Razvojna banka a.d., Banja Luka**
Milana Tepića 4
78000 Banja Luka, Republika Srpska, Bosnia and Herzegovina
Tel: +387 51 221 610
Fax: +387 51 221 623
E-mail: helpdesk@nlbrazvojnabanka.com
www.nlbrazvojnabanka.com
Radovan Bajić, Director

**NLB Tutunska banka a.d., Skopje**
Majka Tereza 1
1000 Skopje, Macedonia
Tel: +389 2 5 100 865
Fax: +389 2 3 105 681
E-mail: tbanka1@tb.com.mk
www.nlbtb.com.mk
Gjorgji Jančevski, Chairman of the Management Board and CEO
Ljube Rajevski, Member of the Management Board
Damir Kuder, Member of the Management Board

**NLB Banka d.d., Tuzla**
Maršala Tita 34
75000 Tuzla, Bosnia and Herzegovina
Tel: +387 35 259 259
Fax: +387 35 251 414
E-mail: info@nlb.ba
www.nlb.ba
Iztok Gornik, Acting Director

**NLB Leasing d.o.o., Ljubljana**
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, Chairman of the Management Board
Janez Saje, Member of the Management Board

**NLB Leasing d.o.o., Belgrade**
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
www.nlbleasing.rs
Dušan Stankov, Chairman of the Executive Board
Tanja Milijanović, Member of the Executive Board

**NLB Leasing Podgorica d.o.o., Podgorica**
Bulevar Stanka Dragojevića 44a
81000 Podgorica, Montenegro
Tel: +382 81 667 655
Fax: +382 81 667 656
E-mail: info@nlbleasing.me
www.nlbleasing.me
Milan Marković, Director

**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
Hidajeta Šahinović, Executive Director

**NLB Leasing Sofia e.o.o.d. – in liquidation, Sofia**
Oborishte Region
23 Beli Iskar Str.
1527 Sofia, Bulgaria
Tel: +359 887 088 737
Dimitar Atanasov Angelov, Liquidator

**NLB Lizing d.o.o.e.l., Skopje**
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
Maja Lape Trajkova, Director

**OL Nekretnine d.o.o., Zagreb**
Miramarska 24/6
10000 Zagreb, Hrvaška
Tel: +385 1 63 29 972
Fax: +385 1 61 77 228
E-mail: info@OL-nekretnine.hr
Kristijan Jurić, Director

**Optima Leasing d.o.o., Zagreb**
Miramarska 24
10000 Zagreb, Croatia
Tel: +385 1 61 77 225
Fax: +385 1 61 77 228
E-mail: info@optima-leasing.hr
Štefan Belingar, Chairman of the Management Board (until 31.12.2014)
Vjekoslav Budimir, Member of the Management Board

**Prvi faktor d.o.o., Ljubljana**
Slovenska cesta 17
1000 Ljubljana, Slovenia
Tel: +386 1 200 54 10
Fax: +386 1 426 07 47
E-mail: info@prvifaktor.si
www.prvifaktor.si
Klemen Hauko, Director
Marcel Mišanović Osti, Director

**Prvi faktor d.o.o., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 222 54 00
Fax: +381 11 222 54 44
E-mail: info@prvifaktor.rs
www.prvifaktor.rs
Željko Atanasković, Director

**Prvi faktor d.o.o., Sarajevo**
Tešanjska 24a
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 33 767 210
Fax: +387 0 33 767 211
E-mail: info@prvifaktor.ba
www.prvifaktor.ba
Đenan Bogdanić, Director

**Prvi faktor d.o.o., Zagreb**
Hektorovičeva 2
10000 Zagreb, Croatia
Tel: +385 1 6177 805
Fax: +385 1 6176 629
E-mail: info@prvifaktor.hr
www.prvifaktor.hr
Hrvoje Turkalj, Director

**Prvi faktor d.o.o.e.l., Skopje**
Mito Hađivasilev - Jasmin br. 20
1000 Skopje, Macedonia
Tomaž Kačar, Director

**NLB Factoring a.s. – u likvidaci, Ostrava**
Gorkeho 2
70200 Ostrava - Moravska Ostrava, Czech Republic
Tel: +420 59 61 56 222
Fax: +420 59 61 56 555
E-mail: info@nlbfactoring.cz
www.nlbfactoring.cz
Barbara Šink, Liquidator

**NLB InterFinanz AG, Zürich**
Beethovenstrasse 48
8002 Zürich, Switzerland
Tel: +41 44 283 17 17
Fax: +41 44 283 17 29
E-mail: info@nlbi.ch
www.nlbinterfinanz.ch
Matjaž Jevnišek, Managing Director

**NLB InterFinanz d.o.o., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 350
Fax:+381 11 22 25 354
E-mail: belgrade@nlbi.ch
Marko Schneider, General Manager

**NLB InterFinanz Praha s.r.o., Prague**
Vaclavske namesti 56
110 00 26 Prague 1, Czech Republic
Tel: +42 2 240 328 70
Fax: +42 2 240 328 74
E-mail: nlbi@nlbi.cz
Štefan Loncnar, General Manager

**NLB Vita d.d., Ljubljana**
Trg republike 3
1520 Ljubljana, Slovenia
Tel: +386 1 476 58 00
Fax:+386 1 476 58 18
E-mail: info@nlbvita.si
Barbara Smolnikar, Chairwoman of the Management Board
Irena Prelog, Member of the Management Board

**Skupna pokojninska družba d.d., Ljubljana**
Trg republike 3
1000 Ljubljana, Slovenia
Tel: +386 1 470 08 40
Fax: +386 1 470 08 53
E-mail: info@skupna.si
www.skupna.si
Aljoša Uršič, Chairman of the Management Board
Peter Krassnig, Member of the Management Board

**NLB Nov penziski fond AD, Skopje**
Majka Tereza 1
1000 Skopje, Macedonia
Tel: +389 2 5100 285
Fax: +389 2 3236 989
E-mail: kontakt@npf.com.mk
www.npf.com.mk
Davor Vukadinović, Chairman of the Management Board
Peter Velkavrh, Vice Chairman of the Management Board
Mira Šekutkovska, Member of the Management Board

**NLB Skladi d.o.o., Ljubljana**
Trg republike 3/VII
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, Chairman of the Management Board
Aleksandra Brdar Turk, Member of the Management Board

**Bankart d.o.o., Ljubljana**
Celovška cesta 150
1000 Ljubljana, Slovenia
Tel: +386 1 583 41 00
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**
Grosse Gallusstrasse 1-7
60311 Frankfurt/Main, Germany
Tel: +49 69 21 06 816
M: +4915116795809
Fax: +49 69 21 06 199
E-mail: info@lhb.de
www.lhb.de
Borut Stanič, Chairman of the Management Board (since 1.1.2015, Markus Buzov)

**NLB Propria d.o.o., Ljubljana**
Železna cesta 18
1000 Ljubljana, Slovenia
Tel: +386 1 470 08 00
Fax: +386 1 425 30 82
E-mail: nlbpropria@nlbpropria.si
Elvira Kalkan, Director

**Prospera plus d.o.o., Ljubljana**
Šmartinska cesta 132
1000 Ljubljana, Slovenia
Tel: +386 1 524 82 91
Fax: +386 1 524 76 11
E-mail: info@prospera-plus.si
Urban Smerkolj, Director

**FIN-DO d.o.o., Domžale**
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel: +386 1 724 53 18
Štefan Brvar, Director

**ICJ, d.o.o. – in bankruptcy**
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel: +386 1 724 53 18
Matjaž Nanut, bankruptcy trustee

**Kreditni biro SISBON d.o.o.**
Trg republike 3
1000 Ljubljana, Slovenia
Tel: +386 8 20 57 110
Fax: +386 8 20 57 111
E-mail: info@sisbon.si
www.sisbon.si
Hermina Govekar Vičič, Director

**CBSinvest d.o.o., Sarajevo**
Džidžikovac 1
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 61 162 618
Eldin Teskeredžić, Director

**LHB Trade d.o.o. u likvidaciji, Zagreb**
Miramarska 24
10000 Zagreb, Croatia
Tel: +385 1 63 95 500
E-mail: marko.jajcevic@lhb.hr
Marko Jajčević, liquidator

**PRO-REM d.o.o., Ljubljana**
Šlandrova 2
1231 Ljubljana, Slovenia
Tel: +386 1 586 29 16
Fax: +386 1 586 29 60
E-mail: nepremicnine@prorem.si; info@prorem.si
Sebastian Trajkovski, Director

**NLB Srbija d.o.o., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 369
Fax: +381 11 22 25 365
E-mail: office@nlbsrbija.co.rs
Vladan Tekić, Director

**NLB Crna Gora d.o.o., Podgorica**
Ivana Crnojevića 107
81000 Podgorica, Montenegro
T:+382 78 119 720, loc 101
E-mail: Gligor.Bojic@nlb.me
E-mail: Goran.Lalicevic@nlb.me
Gligor Bojić, Executive Director
Goran Lalićević, Deputy Director

**BRANCHES AND REPRESENTATIVE OFFICES OF NLB GROUP MEMBERS OUTSIDE THEIR COUNTRY OF RESIDENCE**

**NLB InterFinanz AG, Ljubljana Branch**
Slovenska 27
1000 Ljubljana, Slovenia
Tel: +386 1 200 06 43
Fax: +386 1 200 06 46
E-mail: kobler@nlbi.ch

**NLB InterFinanz AG, Ukraine Representative Office**
25-B Heroyiv Stalinhradu Ave
04210 Kiev, Ukraine
25-B Heroyiv Stalinhradu Ave
04210 Kiev, Ukraine
Tel: +38 044 222 64 56
Fax: +38 044 272 64 54
E-mail: konoval@nlbi.ch
www.nlbgroup.si
(closed in 2015)

# LIST OF ABBREVIATIONS

**ALM** - asset liability management
**AFS** - available for sale
**BAMC** - Bank Assets Management Company
**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 IV.** - Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
**CRM** - customer relationship management
**CRO** - chief risk officer
**CRR** - Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms
**CVaR** - conditional Value at Risk
**EBA** - European Banking Authority
**EC** - European Commission
**ECB** - European Central Bank
**EFQM** - European Foundation for Quality Management
**EFSF** - European Financial Stability Facility
**EMIR** - the European Market Infrastructure Regulation
**EMU** - European Monetary Union
**ESM** - European Stability Mechanism
**EU** - European Union
**FATCA** - Foreign Account Tax Compliance Act
**GDP** - gross domestic product
**HICP** - harmonised index of consumer prices
**ICAAP** - internal capital adequacy assessment process
**IFRS** - International Financial Reporting Standards
**ILO** - International Labour Organization
**IMF** - International Monetary Fund
**JV** - joint venture
**KDD** - Central Securities Clearing Corporation
**LCR** - liquidity coverage ratio
**LTD** - loan to deposit ratio
**LTRO** - long-term refinancing operations
**MiFID** - information system for support of business brokerage, custody of securities and archive
**NPL** - non-performing loan
**P&L** - profit and loss account
**ROA** - return on assets
**ROE** - return on equity
**RS** - Republic of Slovenia
**SEPA** - Single Euro Payments Area

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: www.nlb.si; SWIFT: LJBASI2X; Reuter: LB LJ; IBAN SI56-0100-0000-0200-097
Account number: 01000-0000200097; VAT identification number: SI91132550

Production: Futura DDB d.o.o.; Text: NLB d.d.
Photographs: Primož Korošec, Luka Kaše; Printed by: Grafex d.o.o.

Annual report can be found on web site at www.nlb.si