# Annual Report 2009


NLB Group

# Key Financial Data

| | 2008 | | 2009 | |
|---|---|---|---|---|
| | NLB | NLB Group | NLB | NLB Group |
| **Income statement indicators (in million €)** | | | | |
| Net interest income | 286 | 476 | 249 | 423 |
| Net non-interest income | 159 | 189 | 177 | 218 |
| Total expenses | 262 | 423 | 253 | 418 |
| Provisions and impairments | 127 | 211 | 196 | 316 |
| Profit before tax | 56 | 38 | -23 | -86 |
| Minority interest | - | 2 | - | 1 |
| Profit after tax | 49 | 21 | -24 | -87 |
| **Balance sheet indicators (in million €)** | | | | |
| Total assets | 14,477 | 18,918 | 15,509 | 19,606 |
| Loans to non-banking sector | 9,719 | 12,917 | 9,457 | 12,333 |
| Deposits of non-banking sector | 7,071 | 9,465 | 8,191 | 10,741 |
| Equity | 1,198 | 1,275 | 1,178 | 1,218 |
| Minority interest | - | 62 | - | 26 |
| **Key indicators** | | | | |
| Return on equity before tax (ROE) | 5.3% | 3.1% | -1.9% | -6.6% |
| Return on assets before tax (ROA) | 0.4% | 0.2% | -0.2% | -0.4% |
| Cost/income ratio (CIR) | 58.9% | 63.7% | 59.4% | 65.2% |
| Market share in terms of total assets | 30.2% | - | 29.8% | - |
| Loan-to-deposit ratio (LTD) of non-banking sector | 143% | 143% | 122% | 123% |
| Capital adequacy | 11.9% | 11.8% | 10.4% | 10.7% |
| Tier 1 ratio | 10.5% | 7.9% | 9.9% | 7.2% |
| **Key indicators per share** | | | | |
| Number of shares | 8,905,952 | - | 8,905,952 | - |
| Nominal value (in €) | 8.3 | - | 8.3 | - |
| Book value (in €) | 135.0 | 143.7 | 132.7 | 137.3 |
| Earnings per share (EPS) (in €) | 5.9 | 2.4 | - | - |
| **International credit ratings** | | | | |
| Moody's | Aa3 | | A1 | |
| Fitch | A- | | A- | |

# Contents



## Business Report

# Statement by the President of the Management Board of NLB


## Dear NLB business partners, shareholders, and employees,

In 2009, NLB Group operations were characterized by difficult and changing conditions in the immediate and extended business environment and by an exacerbated financial situation. Due to the economic and financial crisis that harshly affected a large number of our business partners and consequently also our bank, this was an especially trying period. The management endeavored to react appropriately and in a timely fashion to unfavorable market conditions and use the measures adopted to reduce the consequences of the financial crisis and mitigate their impact on operations. In adopting these kinds of business decisions, it is necessary to act with a great deal of prudence and caution.

The crisis was reflected in two ways: in the first part of the year, it was especially reflected in the bank's liquidity and, in the second part of the year, the deteriorating business conditions in Slovenia began to come to the fore, which had a key impact on the quality of the bank's portfolio. During the year, payment delays therefore began to increase, which resulted in poorer quality of loans and thus also a poorer credit structure of debtors. To protect ourselves against any unexpected blows from the financial crisis, the NLB pursued a conservative policy of making provisions. This caused poorer results, but also contributed to the enhanced stability of the bank, especially from the viewpoint of efforts under further difficult operating conditions.

In these difficult circumstances, fairly good results before provisions were achieved, but the scale of impairments and provisions formed exceeded the profit achieved, which resulted in a loss in the amount of €23.6 million at the NLB level, and €86.8 million at the NLB Group level. A great part of this negative outcome resulted from isolated events such as the revaluation of companies with share capital in subsidiaries, the write-off of investment in real estate, and impairment of some other investments.

Despite all the difficulty resulting from the unfavorable business situation, it is important not to focus merely on addressing problems caused by the economic standstill, but also to make good use of the opportunities that have appeared or will appear due to the changes resulting from the financial crisis.

In doing this, we take courage in the experience gained to date, which bodes well in the upcoming years. Our strongest support is the expertise, efforts, and labor of our employees, numbering over 8,000 in seventeen countries.

2010 will also be full of new challenges. We are confident that we will be able to cope with the demanding conditions, and expectations predominate that conditions will improve and give us a new opportunity to operate successfully and with high quality. Next year, the bank will have to outline new strategic policies reflecting the experience and expertise of all of us. We will nurture our commitment to NLB and its values to restore bankers' good name and to safeguard the successful performance of our bank.

**Božo Jašovič,**
President of the
NLB Management Board

# Report of the Supervisory Board of NLB

In the first half of 2009, the Supervisory Board of NLB d.d. was composed of the following members: Igor Marinšek (chairman), Peter Ješovnik (deputy chairman), Katja Božič, Iztok Bricl, Riet Docx, John Hollows, Marko Rus, Darko Tisaj, and Jan Vanhevel.

At the general meeting of 30 June 2009, a new Supervisory Board was appointed for the period until the conclusion of the Bank's annual general meeting, which decides on the annual report for the fourth financial year. Andrej Baričič, Riet Docx, Gregor Dolenc, John Hollows, Igor Masten, Rasto Ovin (deputy chairman), Stojan Petrič, Marko Simoneti, Boris Škapin, Jan Vanhevel, and Stanislava Zadravec Caprirolo were appointed members of the Supervisory Board. After Stanislava Zadravec Caprirolo's resignation in November 2009, Marko Simoneti was appointed chairman.

In 2009, four committees provided professional support to the Supervisory Board: the Risks Committee, the Auditing Committee, the Bonuses and Appointments Committee, and the Strategy and Development Committee. When the new Supervisory Board and new members of individual committees were appointed, the responsibilities of individual committees were also newly defined and their respective rules of procedure were correspondingly amended.

## Supervisory Board operations

In 2009, the Supervisory Board met at eleven regular and ten electronic meetings, at which it discussed the regular reports on NLB d.d. and NLB Group operations, and other current matters and important issues.

Accordingly, the Board adopted a number of decisions, the following being among the most important:
- It discussed and approved the 2008 Annual Report and the Supervisory Board's report on verifying the annual report and proposal on the use of the balance-sheet profit;
- It approved the proposals to adopt decisions at the general meeting, including the proposed changes to the articles of association and the proposal to appoint new members of the Supervisory Board;
- It gave its consent to issuing bonds guaranteed by the Republic of Slovenia;
- It reviewed the findings of a special audit with regard to management bonuses and auditing specific transactions;
- It carried out personnel changes in the Bank's management: upon the termination of CEO Marjan Kramar's term of office, it appointed Draško Veselinovič as the new CEO; in addition, it appointed David Benedek as the sixth Management Board member, accepted Draško Veselinovič's resignation, and appointed Božo Jašovič as the new CEO. Based on the establishment of an appointment-based system, Jašovič proposed the members of the new Management Board; thus, in addition to the two existing members David Benedek and Claude Deroose, Marko Jazbec and Robert Kleindienst were also appointed members of the Management Board;
- It reviewed the Bank's and the Group's capital projection until the end of 2009 and for the upcoming years, and approved the Bank's capital-increase proposal;
- It reviewed the Bank's and the Group's 2009–2015 plans, which will be correspondingly updated after the approval of the new strategy, which is to be prepared by the end of Q1 2010; in the meantime, the Management Board must prepare a plan for immediate short-term activities;
- It adopted the 2010–2012 operations strategy of LHB Internationale Handelsbank and the operative action plan for its implementation;
- It regularly discussed the internal audit reports, inspected letters from the Bank of Slovenia and external auditing regulators, and monitored the implementation of their recommendations;
- It regularly reviewed the reports on the Bank's participation in the Republic of Slovenia's guarantee schemes and the movement of the Bank's loan activities;
- It adopted a reformed system of awarding bonuses to the Management Board and established the criteria for awarding these bonuses in 2010.

## Verifying and approving the 2009 Annual Report

On 7 April 2010, the NLB Management Board submitted the 2009 Annual Report with audited financial statements of NLB and consolidated financial statements of the NLB Group, including the auditor's opinions, to the Supervisory Board. According to the auditor, the financial statements and the appertaining notes truly and authentically reflect the Bank's and the NLB Group's financial standing as of 31 December 2009 and meet the international financial reporting standards. Based on his review of the business report, the auditor establishes that the content of the information provided in the business section of the annual report agrees with the Bank's and the NLB Group's financial statements.

The Supervisory Board had no comments on the report provided by the auditing company PricewaterhouseCoopers d.o.o., Ljubljana. After carefully verifying the audited annual report for the 2009 financial year, the Supervisory Board had no comments on the report and adopted it unanimously.

## Evaluating the Supervisory Board's work

While discussing the annual report, the Supervisory Board also evaluated its own work. During this discussion, it was established that in the past period the active involvement of the Supervisory Board members was exceptionally large, which is also understandable given the difficult operating conditions, the changes to the Bank's strategic policy, and the staff-related changes in the Bank's management.

All of the Supervisory Board members actively participated in Board operations and Board committee operations by regularly attending the meetings and participating in discussions, and preparing written proposals or comments on the matters discussed.

An effective system of preliminary detailed discussion of individual matters at the meetings of specialized committees for individual areas has also become a well-established practice of the new Supervisory Board; the power to adopt decisions remains exclusive to the Supervisory Board.

Possible improvements to the Supervisory Board's work discussed include even better coordination of operations of individual specialized committees, and additional training of the Supervisory Board members according to their responsibilities within the Bank's bodies.

## Conclusion

In the past year, exacerbated business conditions influenced NLB's operations and results. Taking into account the significantly changed circumstances, NLB adopted a proactive approach to implementing short-term measures and activities, and defining a long-term strategic policy as part of the new strategy, which will enable it to effectively face upcoming challenges.

On this occasion, the Supervisory Board would like to thank the Management Board and all of the employees for their contribution and efforts made in these difficult conditions. Great challenges also await us in the future, and with our combined strength, motivation, and commitment we will be able to face them successfully and meet the goals set.

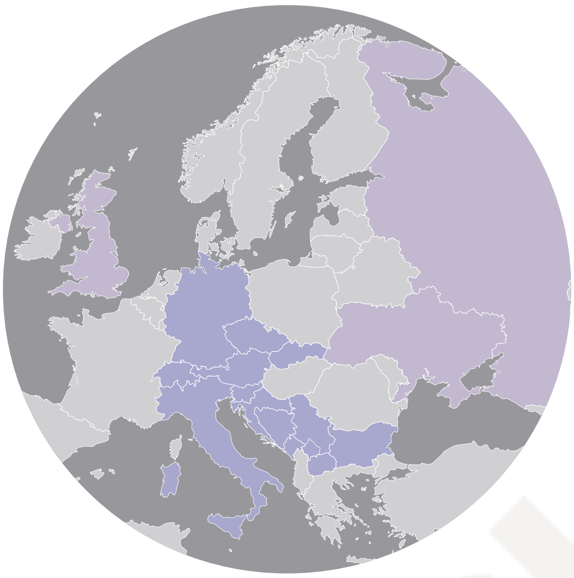
Supervisory Board of NLB

**Marko Simoneti,**
Chairman of the Supervisory Board

# 1 Business Report


# NLB Group

# Introduction



The NLB Group is the largest Slovenian banking and financial group. As of December 31, 2009 it consisted of NLB and 53 banks and companies and, in addition, a branch and three NLB representative offices abroad.

Banking is the NLB Group's most important activity, and other financial activities such as leasing, factoring and forfeiting, insurance, and asset management are gaining strength.

**The NLB Group operates in 17 countries, covering 18 markets, and includes:**

- 12 banks and 1 branch abroad;
- 11 leasing companies;
- 11 factoring and forfaiting companies;
- 5 insurance companies;
- 1 asset management company; and
- 14 companies performing other activities.

## Awards and Recognitions

In 2009, NLB received several awards for excellence from industry experts and the general public for both its business and marketing performance.

**Awards for Excellence in Business Performance**

For the eleventh consecutive year, in 2009 NLB received the "CEE Awards of Excellence" as the best bank in Slovenia from the British financial magazine Euromoney.

EUROMONEY

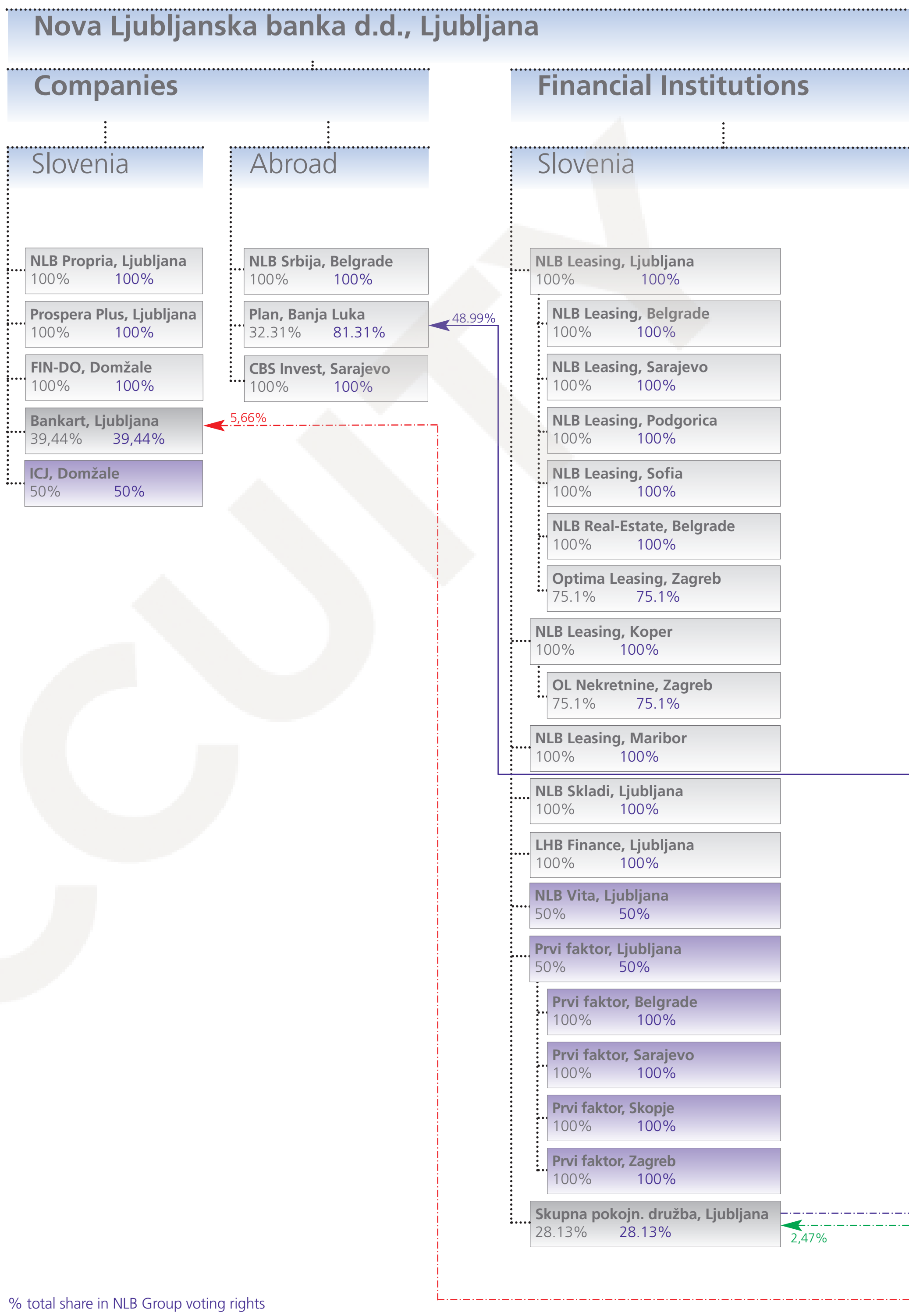
The international financial magazine The Banker named NLB Tutunska Banka (i.e., a member of the NLB Group) the best bank in Macedonia for the fifth consecutive time. Furthermore, NLB was recognized as the best bank in Slovenia in 2000, 2001, 2002, 2003, 2004, 2005, 2006, and 2007.


The renowned magazine Global Finance recognized NLB as the best bank in Slovenia for the twelfth consecutive year. NLB was also named as the best bank in emerging markets in 2006, 2007, and 2008, and the best bank for foreign exchange trading in Slovenia in 2004, 2005, 2006, 2007, 2008, 2009, and 2010.

**Awards for Excellence in Marketing**

Readers of Reader’s Digest recognized NLB as the most trusted bank in Slovenia, awarding it “Trusted Brand 2009” in the banking category.

## Schema of the NLB Group as of December 31, 2009




**Legenda:**

| | | |
|---|---|---|
| **Subsidiaries**<br>% direct share in NLB voting rights | | % total share in NLB Group voting rights |
| **Associates**<br>% direct share in NLB voting rights | | % total share in NLB Group voting rights |
| **Joint venture**<br>% direct share in NLB voting rights | | % total share in NLB Group voting rights |

* Schema shows shares of voting rights.

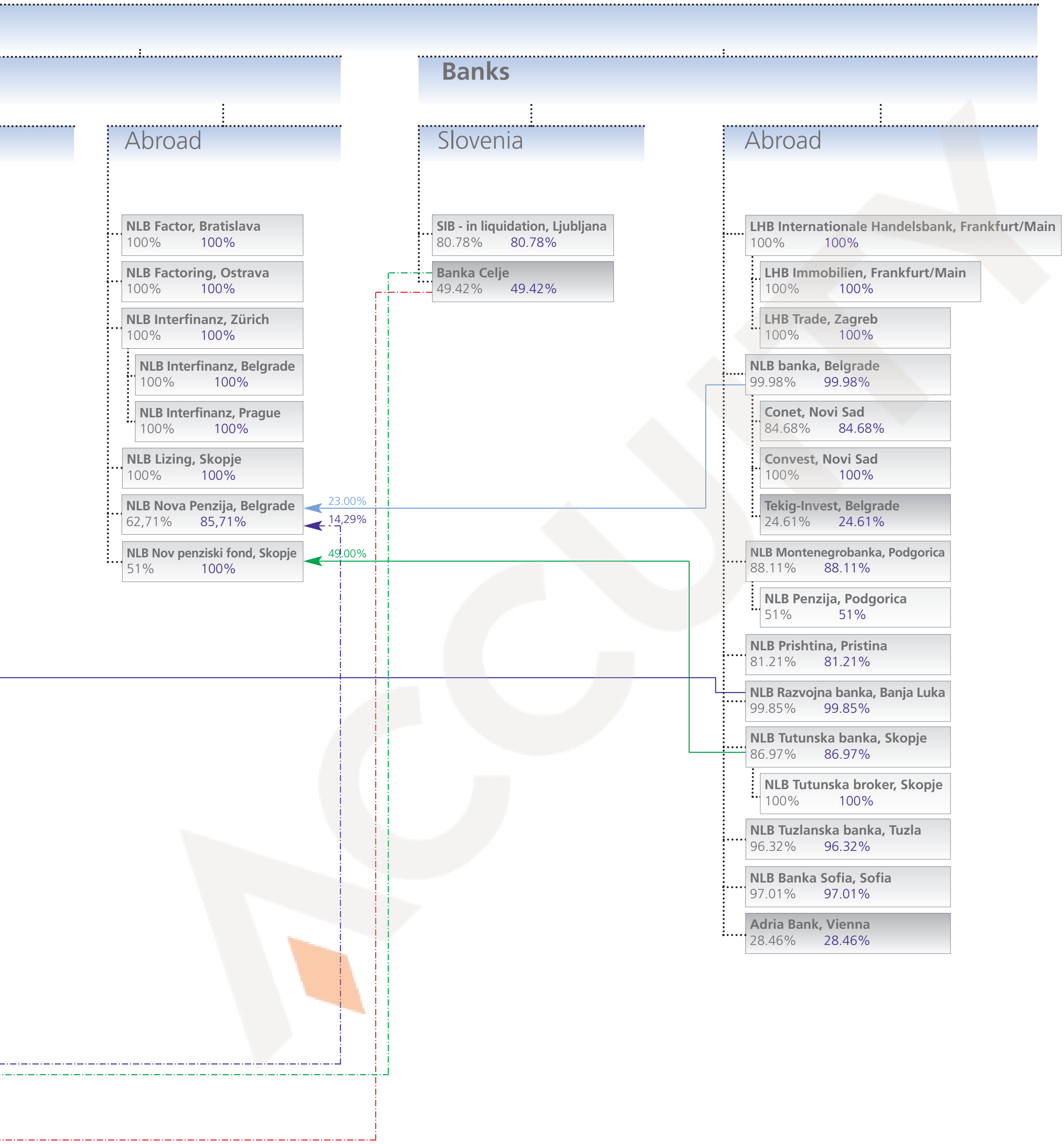

Banks
Abroad
NLB Factor, Bratislava 100% 100%
NLB Factoring, Ostrava 100% 100%
NLB Interfinanz, Zürich 100% 100%
NLB Interfinanz, Belgrade 100% 100%
NLB Interfinanz, Prague 100% 100%
NLB Lizing, Skopje 100% 100%
NLB Nova Penzija, Belgrade 62,71% 85,71%
NLB Nov penziski fond, Skopje 51% 100%
23.00%
14,29%
49.00%
Slovenia
SIB - in liquidation, Ljubljana 80.78% 80.78%
Banka Celje 49.42% 49.42%
Abroad
LHB Internationale Handelsbank, Frankfurt/Main 100% 100%
LHB Immobilien, Frankfurt/Main 100% 100%
LHB Trade, Zagreb 100% 100%
NLB banka, Belgrade 99.98% 99.98%
Conet, Novi Sad 84.68% 84.68%
Convest, Novi Sad 100% 100%
Tekig-Invest, Belgrade 24.61% 24.61%
NLB Montenegrobanka, Podgorica 88.11% 88.11%
NLB Penzija, Podgorica 51% 51%
NLB Prishtina, Pristina 81.21% 81.21%
NLB Razvojna banka, Banja Luka 99.85% 99.85%
NLB Tutunska banka, Skopje 86.97% 86.97%
NLB Tutunska broker, Skopje 100% 100%
NLB Tuzlanska banka, Tuzla 96.32% 96.32%
NLB Banka Sofia, Sofia 97.01% 97.01%
Adria Bank, Vienna 28.46% 28.46%

Table 1:
**Matrix of Activities of the NLB Group Members by Country as of December 31, 2009**

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

* Trieste Branch is part of NLB.
** The company is currently acquiring an operating licence.

## Banks in SE Europe

The NLB Group is the largest banking and financial institution in Slovenia, with a special interest in further expansion into SE European markets. The NLB Group operates in the following strategic SE European markets: Bosnia and Herzegovina, Macedonia, Serbia, Montenegro and Kosovo.

### Bosnia and Hercegovina

| | NLB Razvojna banka, Banja Luka | NLB Tuzlanska banka, Tuzla |
|---|---|---|
| Number of branch offices | 70 | 48 |
| Number of employees | 520 | 473 |
| Market share (in %) | 21* | 5,1** |

* Market share in Republika Srpska.
** Market share in the Federation.

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

**NLB Razvojna Banka** is a full-service bank also registered to trade securities. In the Republika Srpska, it has the second biggest branch network. In terms of the number of clients it is the largest, and in terms of total assets the second biggest in the Republika Srpska.

**NLB Tuzlanska Banka** offers comprehensive banking services and has over a hundred-year tradition of providing financial services in northeastern Bosnia. The bank is the fifth largest in the Federation of Bosnia and Herzegovina based on balance sheet totals.

### Montenegro

| | NLB Montenegrobanka, Podgorica |
|---|---|
| Number of branch offices | 21 |
| Number of employees | 315 |
| Market share (in %) | 17,0 |

**NLB Montenegrobanka** offers comprehensive commercial banking services and has been owned by the NLB Group since 2003. During this period, the bank has developed into one of the most prestigious and recognized banks in the area, which is also proven by the fact that it was named best bank in Montenegro by the British financial magazine Euromoney also in 2008. In terms of total assets it is the second-largest bank in the country.

### Macedonia

| | NLB Tutunska banka, Skopje |
|---|---|
| Number of branch offices | 48 |
| Number of employees | 705 |
| Market share (in %) | 19,9 |

**NLB Tutunska Banka** offers comprehensive commercial banking services, and is one of the most successful members in the Group. The financial magazine The Banker for five consecutive years named the bank as the best in Macedonia. The bank targets small and mid-size businesses.

Measured by its total assets it is the third largest bank in the country.

## Serbia

| | NLB banka, Belgrade |
|---|---|
| Number of branch offices | 85 |
| Number of employees | 763 |
| Market share (in %) | 2,1 |

In the Serbian market, the NLB Group operates through **NLB Banka**, which emerged from the merger of two banks: NLB LHB Banka Beograd and NLB Continental Banka. The merger process was finalized on December 31, 2008. NLB Banka offers all-inclusive banking services to individuals and to businesses, banks, and international institutions.

## Kosovo

| | NLB Prishtina, Pristina |
|---|---|
| Number of branch offices | 66 |
| Number of employees | 538 |
| Market share (in %) | 14,3 |

The NLB Group has been present in Kosovo since spring 2007. **NLB Prishtina** was established on January 1, 2008 by the merger of NLB Banka e Re e Kosovës and NLB Kasabank.

NLB Prishtina is, in terms of total assets, the third largest bank in Kosovo. It provides a solid foundation for comprehensive banking and financing, and offers high quality customer services in the emerging Kosovo market. The bank advances closer business and economic ties between Slovenia and Kosovo, where many Slovenian companies already operate.

# Banks in Other EU Countries

| | LHB Internationale Handelsbank, Frankfurt/Main | NLB Banka Sofia, Sofia | Trieste Branch |
|---|---|---|---|
| Number of branch offices | 2 | 1 | 2 |
| Number of employees | 88 | 43 | 27 |
| Market share (in %) | – | 0,3 | – |

**LHB Internationale Handelsbank** operates as a bank, specialized for operations in SE Europe. In 2009, NLB increased its participation in the bank's capital to 100%.

**NLB Banka Sofia**, which was renamed from NLB West-East Bank in 2009, was founded to provide financing for trade between Slovenia and Bulgaria, as well as other central European and Mediterranean countries. Most of its business is with mid-size and smaller firms primarily engaged in commerce, agriculture, and construction.

The associated bank, Adria Bank in Vienna, and Trieste Branch complete the list of NLB Group banks in EU countries.

**Trieste Branch**, which operates as NLB branch, is primarily involved with mid-size enterprises from northern Italy that conduct business with Slovenia and Central and SE Europe. The bank has two offices in Trieste and Gorizia.

## Non-Banking Activities

### Leasing

The leasing companies of the NLB Group are comprehensive providers of leasing services to individuals and corporate clients, as well as to sale traders. Their main business is financing real estate, personal and commercial vehicles, computer and other information technology equipment, industrial and office furnishings, agricultural equipment and the like.

**NLB Leasing Group Ljubljana** and other leasing companies provide leasing services for the NLB Group in the Slovenian and SE European markets. Leasing is an important activity for the Group and involves 11 leasing companies: three in the Slovenian market and eight in the markets of SE Europe. The leasing companies together employ 174 people.

The NLB leasing companies' market share in Slovenia is 7.4%, placing them fifth in the country. The NLB Group is among the leaders in leasing in Macedonia and Montenegro. **NLB Lizing Skopje** deserves special mention, as it is not only the biggest leasing company in the Macedonian market, but also the first.

### Factoring and Forfaiting

The NLB Group provides factoring and forfeiting services in the Slovenian market through Prvi Faktor Group and LHB Finance. The Group also provides these services in the markets of SE Europe, in Switzerland, in the Czech and the Slovak Republics. Factoring and forfeiting employed 210 people.

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

**NLB Factor** and **NLB Factoring** companies focus mainly on factoring services (including claim collection, administration and insurance), as well as on short-term and investment loans and financing of real estate and development activities.

NLB Group has a 50% stake in the companies of the **Prvi Faktor Group** (with SID Bank owning the other 50%). Prvi Faktor Group companies are specialized to offer complex factoring services (acquisition, insurance and management of accounts receivable in domestic and foreign markets). The largest of these operations in the Group is Prvi Faktor Zagreb, which is also the leading factoring company in the Croatian market. Parent company Prvi Faktor Ljubljana is a member of the international factoring association, Factor Chain International (FCI), while Prvi Faktor Belgrade is part of the International Factoring Group (IFG).

### Asset Management

The NLB Group's **NLB Skladi** has operated in this market since 2004. The company is among the leading providers of investment fund management in Slovenia. Its market share is 17.5% (by assets of mutual funds from nonprivatisation sources). In addition to the general advantages of mutual funds, NLB Skladi offers additional advantages, such as adjustable savings plans, competitive commission rates and expenses, management in line with international standards, genuine transparency of investment policies, timely information for investors, and state of the art services to investors by the banking network of the NLB Group.

### Life and Pension Insurance

The NLB Group provides life and pension insurance services.

**NLB Vita**, which is 50% owned by the NLB Group (the other 50% is owned by the Belgian KBC group), offers life insurance products tailored to fit specifics of sale exclusively through its banking network. NLB Vita's Slovenian market share is 4.6%.

**Skupna Pokojninska Družba** is an associate member of the NLB Group and is the leading provider of voluntary pension insurance in Slovenia, holding a market share of 24.5%.

NLB Group also provides pension insurance services in SE Europe: in Macedonia (NLB Nov Penziski Fond with market share of 47%), Serbia (NLB Nova Penzija with market share of 3%) and Montenegro (NLB Penzija, which is still in the process of acquiring a concession/license).

# Strategy

NLB's strategic objectives are based on the assumption that it is an independent banking group, which builds its business model itself and ensures the necessary strategic resources for its growth and development.

**NLB is a full-service banking group operating in southeastern Europe.**

NLB's strategic objective is to be one of the leading providers of banking services in each of the SE European countries where NLB has retail operations.

Slovenia, which is NLB's home market and where the NLB Group generates most of its revenue, also is its strategic key market. NLB's strategic objective on this market is to maintain its market share.

Furthermore, NLB's strategic market includes SE Europe, where it is active on the retail banking market,  and includes the following countries: Serbia, Macedonia, Bosnia-Herzegovina, Montenegro, and Kosovo. NLB's strategic goal for those markets on which it already has retail operations is to be among the leading providers.

**NLB provides comprehensive banking and financial services.**

NLB is a full-service banking group that, in addition to its basic banking services, also offers comprehensive financial services to fulfill all its clients' financial needs.

The key strategic pillars consist of:

**Retail banking,** which includes:
- Commercial banking,
- Leasing of movable property[1],
- Asset management,
- Life and pension insurance,
- Private banking.

**Corporate banking**, which includes:
- Commercial banking,
- Corporate finance,
- Brokerage on capital markets according to its clients' needs,
- Trade finance,
- Leasing of movable property.

[1] The leasing products are also intended for companies.

# Key Events

## 2009

**January:**
- NLB Banka, Belgrade took up its business operations.

**March:**
- Implementation of the national SEPA credit payment system at NLB.

**April:**
- David Benedek was appointed a new member of the NLB Management Board.

**May:**
- Draško Veselinovič resigned as President of the NLB Management Board.

**June:**
- Acquisition of NLB syndicated loans in the amount of €405 million.
- Appointment of new NLB Supervisory Board members.

**July:**
- Successful first sale of NLB bonds guaranteed by the Republic of Slovenia in the amount of €1.5 billion.
- The Fitch international rating agency reconfirmed NLB's credit rating.

**September:**
- Božo Jašovič was appointed new president of the NLB Management Board.
- Issuing of NLB25 bonds.

**October:**
- The Moody's international rating agency changed NLB's credit rating.

**November:**
- Early termination by mutual agreement of the term of office of three NLB Management Board members (Alojz Jamnik, Matej Narat, and Miran Vičič) and appointment of Robert Kleindienst and Marko Jazbec as new NLB Management Board members.
- The President of the NLB Supervisory Board, Stanislava Zadravec Caprirolo, resigned, and the previous member, Marko Simoneti, was elected new President of the NLB Supervisory Board.

## 2010

**January:**
- NLB played a major role in issuing new Republic of Slovenia government bonds.

**February:**
- NLB Skladi received the 2009 Slovenia Frost & Sullivan Award for Market Penetration Leadership.

# Performance Analysis

# Macroeconomic Environment

## Slovenia

The last quarter of 2008 already indicated that the global economic and financial crisis would affect the national economy. From month to month, short-term indicators recorded increasingly lower economic activity resulting in the biggest decline in economic growth after 1992. Because the economy largely depends on exports, Slovenia was strongly affected by the drop in outside demand, which quickly resulted in decreased exports. An over 30% drop in investment, a decrease in foreign trade by approximately 25%, and over 15% decline in the manufacturing industries' added value left a mark on the economy. Despite the second half of the year indicating improved economic activities, economic growth dropped by 7.8% in 2009.

Due to the affected foreign trade, during the year the improved trade and income balance contributed to a significant decline in the current payment balance account in 2009. Despite slightly decreased public financial expenditures, public financial revenue also decreased, exceeding the reference budget deficit limit.

The fragile economic activity and the movement of oil prices on the world market also affected national price movements in 2009. Given the high growth rate in previous years, the rate of cost of living was subject to deflation in 2009. Last year, the average annual inflation was 0.9% and, after two years of exceeding the convergence criterion of price stability, it returned to the permitted range.

Delayed by a few months, the worse economic activity and severe economic climate also affected the labor market. The rate of registered unemployment increased month by month, and surpassed the 10% mark by the end of the year.

The Slovenian government tried to avoid the negative effects and consequences of the crisis by taking different measures in support of the financial and real sector.

## SE Europe

In 2009, NLB's strategic SE European markets were also affected by the financial and economic crisis, which had already hit developed economies a year earlier. Due to their strong dependence on the external environment, the negative effects of the crisis mostly affected NLB's strategic markets via the real sector. Negative economic growth, which had already affected most of the countries at the beginning of the year, further deteriorated. In 2009, in all countries observed except Kosovo, negative economic growth was primarily caused by the withdrawal of foreign investors, resulting in a fall in direct foreign investments, and decreased foreign trade, manufacturing, and consumption. Croatia saw the largest fall in economic growth (5.8%). Other countries will experience a decrease in GDP between 1 and 5%.

Lower domestic and foreign demand quickly affected the volume of industrial production, which underwent a substantial decrease in 2009. With respect to individual industries, the construction sector was considerably affected, whereas by individual countries the volume of industrial production mainly declined in Montenegro (by approximately 30% y/y), Bulgaria, and Serbia (more than 12%). The Republika Srpska, an entity of Bosnia-Herzegovina, which saw a high growth due to the opening of new mines, was an exception.

After the inflationary pressures from the world markets subsided, prices in SE European countries started to fall. Among other things, due to the high bases in 2008, the strong downward trend of industrial product prices started to slowly subside in the final months of 2009. Kosovo and Serbia were the only countries that were not affected by a deflation of industrial product prices. A similar deflationary trend was observed in cost of living: Kosovo (–2.4%), Macedonia (–0.8%), and Bosnia-Herzegovina (–0.4%). Serbia was the only country with high annual average inflation (8.4%).

Decreased economic activity also impacted the labor market. Once again, the unemployment rate rose in all countries and prognoses expect even worse for

2010. Kosovo and Bosnia-Herzegovina continue to have the highest unemployment rates, at over 40%, followed by approximately 30% in Macedonia and between 10% and 20% in other countries in the region. In addition to increased unemployment rates in 2009, all countries saw a slowdown in salary increases. Last year, the previously high increase rate between 10 and 25% in 2008 dropped to under 1% in most of the countries. Bulgaria and Serbia, however, experienced somewhat higher growth. In the majority of the countries, the average monthly per capita gross wage still amounted to around €500. Kosovo, where the average salary was much lower, was the exception on the low end, whereas Croatia averaged more than €1,000.

Due to the decrease in foreign trade (most of the countries experienced a 20% decrease in exports and a 30% decrease in imports) deficits in the current account of their payment balance also decreased. Last year, the increase in state expenditure resulted in an even greater need for resources to finance the state budget. The temporary discontinuation of the privatization process forced most of the countries to raise urgently needed resources, above all by borrowing from the domestic financial market. Therefore, the public debt of these countries notably increased. In particular, Serbia saw itself facing this problem in the second half of the year, whereas Bulgaria and Croatia were affected by overly high external debts, which almost exceeded the value of their GDP.

## Effects of the Financial Crisis

Whereas the conservative and, above all, underdeveloped financial system protected SE European countries from the worst negative effects of the global financial and economic crises, the markets observed were mainly affected because of their substantial reliance on foreign investors. In 2009, foreign investors almost completely withdrew from these markets, first resulting in a decrease in direct foreign investments and later, due to reduced foreign demand, also affecting foreign trade. In the second half of the year, the negative effects also affected the real sector.

Negative forecasts and, above all, an insecure future fuelled psychological momentum, which additionally

Table 2:
**Movements of Key Macroeconomic Indicators in Slovenia and EMU in the 2007–2009**

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| **Slovenia** | | | |
| GDP (real growth in %) | 6.8 | 3.5 | -7.8 |
| Average annual inflation rate* (in %) | 3.8 | 5.5 | 0.9 |
| ILO unemployment rate (in %) | 4.9 | 4.4 | 5.9 |
| Balance of payments current account (in GDP %) | -4.8 | -6.2 | -0.6 |
| Public debt (in GDP %) | 23.3 | 22.5 | 34.4** |
| Budget deficit/surplus (in GDP %) | 0.0 | -1.8 | -5.8 |
| **EMU** | | | |
| GDP (real growth in %) | 2.8 | 0.6 | -4.1 |
| Average annual inflation rate* (in %) | 2.1 | 3.3 | 0.3 |
| ILO unemployment rate (in %) | 7.4 | 7.5 | 9.4 |
| Balance of payments current account (in GDP %) | 0.2 | -0.7 | -1.6 |
| Public debt (in GDP %) | 66.0 | 69.3 | 77.7** |
| Budget deficit/surplus (in GDP %) | -0.6 | -2.0 | -6.1** |

* HICP – harmonized index of consumer prices
** Estimation

shook trust in the banking systems. Initially, this absence of trust manifested itself in a significant outflow of deposits, which was largest in Bosnia-Herzegovina and Serbia, whereas the possibility of acquiring financial resources abroad diminished almost everywhere. The banks were confronted with difficult liquidity problems. Therefore, in order to bridge the effects of the economic and financial crisis, governments and central banks took a series of measures in 2009. The governments mainly focused on acquiring financial resources abroad. In order to regain trust in the national banking system, they increased the volume of guaranteed deposits in national banks. Once the scope of the crisis was evident, governments focused on measures to help the real sector. Because the bank's credit activities were almost entirely discontinued, by acquiring resources abroad the countries provided for various credit lines to finance the economy, particularly small and medium-sized companies. In 2009, Serbia and Bosnia-Herzegovina used resources from special drawing rights arising from membership in the International Monetary Fund.

The growing demand for money was a result of the banking system's poor liquidity. Central banks were forced to change their restrictive monetary policy to an expansive one. The decrease in the volume of minimum reserves, the manner of their calculation, short-term credit offers by the central banks, and the return of deposits to customers contributed to improved liquidity for the banks and the banking system. Furthermore, changing the amount of reference interest rates became a frequently used monetary policy instrument. In 2009, reference interest rates were mostly lowered by the National Bank of Serbia (from 17.8% to 9.5%) and the National Bank of the Republic of Macedonia. Compared to 2007, at the end of 2009 the central banks started to take measures to increase the banks' credit activities. Despite decreasing the prescribed amount of reserves and more favorable conditions for structural credit adjustments, the banks were aware of the risk. Exaggerated crediting in the next year would worsen already bad assets.

Table 3:
**Movements of Key Macroeconomic Indicators in Countries of the NLB Group Members in the 2007–2009**

| | Bosnia and Hercegovina | Macedonia | Serbia | Montenegro | Bulgaria | Croatia | Kosovo |
|---|---|---|---|---|---|---|---|
| **GDP** (real growth in %) | | | | | | | |
| 2009 | -3.2* | -1.0 | -2.9* | -5.3* | -5.0 | -5.8 | 4.0* |
| 2008 | 5.7 | 4.8 | 5.5 | 6.9 | 6.0 | 2.4 | 5.4 |
| 2007 | 6.2 | 5.9 | 6.9 | 10.7 | 6.2 | 5.5 | 5.0 |
| **Inflation** (in %) | | | | | | | |
| 2009 | -0.4 | -0.8 | 8.4 | 3.4 | 2.8 | 2.4 | -2.4 |
| 2008 | 7.4 | 8.3 | 11.7 | 7.4 | 12.3 | 6.1 | 9.4 |
| 2007 | 1.5 | 2.3 | 6.5 | 4.2 | 8.4 | 2.9 | 4.4 |
| **Official unemployment rate** (in %) | | | | | | | |
| 2009 | 42.1 | 32.2 | 16.9 | 11.3 | 9.1 | 14.9 | 45.0* |
| 2008 | 40.6 | 33.8 | 14.4 | 15.1 | 6.3 | 13.4 | 44.0 |
| 2007 | 42.9 | 34.9 | 18.8 | 19.4 | 6.9 | 15.1 | 43.6 |
| **Current account in balance of payments** (in % GDP) | | | | | | | |
| 2009 | -8.3* | -10.0* | -7.4 | -22.8 | -8.6 | -5.5* | n.a. |
| 2008 | -15.1 | -12.8 | -17.8 | -27.5* | -24.3 | -9.2 | n.a. |
| 2007 | -10.4 | -7.6 | -16.2 | -32.5 | -21.6 | -7.6 | -22.5 |
| **Budget deficit/surplus** (in % GDP) | | | | | | | |
| 2009 | -5.3* | -2.8 | -4.5* | -2.3 | -0.9 | -2.9* | -7.5* |
| 2008 | -2.0 | -1.0 | -2.5 | -0.3 | 3.0 | -0.9 | n.a. |
| 2007 | 1.3 | 0.6 | -1.9 | 6.4 | 3.5 | -1.2 | 9.8 |

* Estimation

# Financial Review of Business Performance

In the first half of 2009, the NLB Group's business operations were mainly characterized by more difficult conditions in obtaining sources, whereas in the second half of the year the negative trends in the global economy caused a decline in the Bank's portfolio quality. Furthermore, falling interest rates, volatile security rates, and some falling currency rate values additionally negatively influenced business operations.

However, by taking adequate business policy measures, the Group largely managed to successfully neutralize these effects. It should be pointed out that:

- Despite adverse conditions, the Group recorded favorable results from income from net interest and net fees and commissions, which represent the main generators of the NLB Group's aggregate income;
- Numerous measures were taken that resulted in lower costs;
- Deposits from the non-banking sector increased;
- The Group continuously fulfilled the liquidity requirements, and
- Great attention was paid to controlling credit risk exposure by means of selective approval of loans, stricter criteria, and consistent implementation of the Bank's collateral policy.

In spite of the conditions, the NLB Group recorded a solid result before provisions totaling €229.6 million, but due to the deteriorating credit portfolio the volume of created impairments and provisions exceeded the generated profit. In addition, negative extraordinary business events totaling €35.2 million net at the Group level and €46.6 million at the NLB level had a considerable effect on the result.

In 2009, the Group's result after tax totaled –€86.8 million or –€51.6 million after the deduction of extraordinary business events. NLB ended the year with a loss in the amount of €23.6 million, but its current business result without extraordinary business events was positive and equaled €23.0 million.

The extended profit, which also includes evaluated securities and cash flow recognized in equity amounted to –€17.3 million at the Bank level and –€56.0 million at the Group level.

Table 4:
**Extraordinary Business Events in 2009**

| (in million €) | NLB Group | NLB |
|---|---|---|
| Impairment of goodwill and intangible fixed assets recognized separately from goodwill | -9.8 | - |
| Valuation of business premises in Frankfurt | -8.9 | - |
| Impairment of capital investments in subsidiaries | - | -35.8 |
| Agroživ debt conversion | -5.0 | -2.7 |
| Impairment of the portfolio available for sale | -4.8 | -4.8 |
| Provisions for restructuring purposes | -4.9 | -1.5 |
| Provisions for the NSVS National Housing Saving Scheme | -1.8 | -1.8 |
| **Total net effect** | **-35.2** | **-46.6** |

## Income Statement

**Net interest income** amounted to €249.5 million in 2009 and fell by 13% against the previous year. The NLB Group followed a similar trend by recording a net interest income in the amount of €423.2 million, or 11% less compared to 2008. The decline in income was due to a decreased interest margin. The problems in accessing sources on the international financial markets, which began back in 2008, resulted in higher prices of both bank and non-banking sources, which, with some delay, affected investment transactions and thus negatively influenced the interest margin. Moreover, the fall in reference interest rates at the beginning of the year influenced the decrease in the margin. Compared to the previous year, the interest margin dropped both at NLB and for banks on SE European markets, so that the cumulative interest margin at the entire NLB Group level amounted to 2.3% and was 0.3 percentage points lower than in 2008. The interest margin of NLB in 2009 was 1.7% and 0.3 percentage points lower than the previous year.

Regarding **non-interest income,** fees and commissions, and thus net income from payment transactions, represented the most important source of income. Income from net fees and commissions totaled €157.4 million in 2009 and were 5% lower compared to the previous year, which is due to the decline in economic activity and the drop in the amount of payment and card transactions connected with this.

In 2009, the Group's dividend income amounted to €2.1 million.

Once the conditions on the capital markets stabilized, after the loss generated by the financial transactions in the previous year and in the first quarter of 2009, the Bank recorded a profit in the last three quarters of the year, so that the total income from financial transactions amounted to €20.6 million in 2009.

Net income from other sources totaled €37.7 million. The major part of this income came from the sale of IT services and fees from cash transactions for other banks, as well as from rentals.

Table 5:
**Key Profit and Loss Account Items**

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 2008 in million € | 2009 in million € | Growth | 2008 in million € | 2009 in million € | Growth |
| Net interest income | 476.0 | 423.2 | -11% | 285.6 | 249.5 | -13% |
| Net fees and commissions | 166.3 | 157.4 | -5% | 121.1 | 115.3 | -5% |
| Dividend revenues | 2.9 | 2.1 | -27% | 37.7 | 32.1 | -15% |
| Net income from financial transactions | -11.7 | 20.6 | -277% | -11.8 | 14.5 | -223% |
| Net other revenues | 31.2 | 37.7 | 21% | 12.0 | 15.1 | 26% |
| Net non-interest income | 188.8 | 217.9 | 15% | 159.0 | 177.1 | 11% |
| **Total income** | **664.8** | **641.0** | **-4%** | **444.6** | **426.6** | **-4%** |
| Total costs | -423.2 | -417.6 | -1% | -261.8 | -253.4 | -3% |
| Profit from equity investments in associates and joint ventures (equity method) | 8.0 | 6.2 | -22% | 0.0 | - | - |
| **Profit before impairments and provisions** | **249.6** | **229.6** | **-8%** | **182.8** | **173.2** | **-5%** |
| Impairments of financial assets AFS through equity | -71.4 | -3.9 | -95% | -60.7 | -4.8 | -92% |
| Credit impairments and provisions | -136.3 | -291.5 | 114% | -64.3 | -153.6 | 139% |
| Other impairments and provisions | -3.7 | -20.1 | 438% | -1.8 | -37.6 | 1957% |
| Impairments and provisions | -211.5 | -315.5 | 49% | -126.7 | -196.1 | 55% |
| **Profit before tax** | **38.2** | **-85.9** | **-325%** | **56.0** | **-22.8** | **-141%** |
| Income tax expense | -15.4 | 0.0 | -100% | -6.8 | -0.8 | -89% |
| Profit of minority shareholders | -2.3 | -0.8 | -63% | - | - | - |
| **Profit after tax** | **20.5** | **-86.8** | **-523%** | **49.2** | **-23.6** | **-148%** |
| Effects recognized through equity | -42.3 | 30.8 | -173% | -1.1 | 6.3 | -697% |
| **Comprehensive income** | -21.8 | -56.0 | 157% | 48.1 | -17.3 | -136% |

**Business expenses together with depreciation** in the NLB Group amounted to €417.6 million in 2009, which is €5.6 million or 1% less compared to the previous year. Despite adjusting salaries in compliance with legal and contractual requirements, personnel costs, which represent 51% of all corporate costs, were 1% lower than in 2008, which is due to the lower number of employees. Numerous business economizing and cost-management measures positively resulted in reduced operative costs, which were 2% lower compared to the previous year. Amortization/depreciation costs stayed at the same level as the previous year.

The cost-income ratio (CIR) was 65.2% for the NLB Group and 59.4% for NLB.

The aggravated crisis in the real sector strongly affected exposure to credit risk or resulted in impairment of loans. Therefore, the NLB Group set aside as much as €291.5 million in **additional impairments and provisions,** which is twice as much as in the previous year. The rate of the portfolio coverage with provisions amounted to 5.2% at the Group level and 3.8% at the NLB level, which represents an increase by 1.5 and 1.0 percentage points, respectively.

In addition to impairments and provisions for credit risk, €24.0 million of other impairments and provisions were created at the NLB Group level. The major part of those referred to the impairment of goodwill and intangible fixed assets recognized separately from goodwill at NLB Tuzlanska Banka (€6.5 million) and NLB Banka Sofia (€3.2 million), totaling €9.8 million, as well as the valuation of the business premises in Frankfurt, which, considering deferred taxes, amounted to €7.5 million at the NLB Group level.

The negative trends in the business environment no longer allowed some of the banks in the Group to achieve the results expected upon acquisition of these companies. Thus, NLB impaired capital investments in three banks (LHB Frankfurt, NLB Tuzlanska Banka, and NLB Razvojna Banka) in the amount of €35.8 million. The aforementioned impairments did not have any effect on the financial statements of the Group because capital

Table 6:
**Key Financial Position Items**

| | NLB Group | | | NLB | | |
|---|---|---|---|---|---|---|
| | 31.12.2008 in million € | 31.12.2009 in million € | Growth | 31.12.2008 in million € | 31.12.2009 in million € | Growth |
| **Total assets** | **18,918.2** | **19,605.6** | **4%** | **14,476.7** | **15,509.1** | **7%** |
| Loans and advances to banks | 1,097.0 | 1,525.3 | 39% | 848.4 | 1,313.1 | 55% |
| Loans and advances to non-banking sector | 12,916.9 | 12,332.9 | -5% | 9,719.4 | 9,456.7 | -3% |
| Gross loans | 13,515.0 | 13,212.4 | -2% | 10,078.6 | 9,951.8 | -1% |
| - corporate | 10,499.0 | 10,094.1 | -4% | 8,021.5 | 7,801.9 | -3% |
| - retail | 2,872.6 | 2,934.5 | 2% | 1,970.3 | 2,068.0 | 5% |
| - state | 143.5 | 183.8 | 28% | 86.8 | 81.9 | -6% |
| Impairments | -598.1 | -879.5 | 47% | -359.2 | -495.1 | 38% |
| Financial assets (securities and derivatives) | 3,239.7 | 3,859.1 | 19% | 2,787.5 | 3,468.8 | 24% |
| Deposits of non-banking sector | 9,464.8 | 10,741.2 | 13% | 7,071.4 | 8,191.2 | 16% |
| - corporate | 2,709.7 | 2,610.7 | -4% | 1,470.3 | 1,470.2 | 0% |
| - retail | 5,961.2 | 6,420.3 | 8% | 5,051.9 | 5,329.6 | 5% |
| - state | 793.9 | 1,710.3 | 115% | 549.2 | 1,391.4 | 153% |
| Deposits of banks | 564.1 | 366.3 | -35% | 508.9 | 336.0 | -34% |
| Debt securities in issue | 493.7 | 1,780.0 | 261% | 468.9 | 1,769.6 | 277% |
| Borrowing from banks | 5,850.4 | 4,293.3 | -27% | 4,180.3 | 3,008.8 | -28% |
| Subordinated debt | 886.7 | 833.6 | -6% | 839.3 | 784.9 | -6% |
| Shareholder's equity | 1,274.6 | 1,218.4 | -4% | 1,197.8 | 1,177.6 | -2% |
| Shareholder's equity (including minority interest) | 1,336.4 | 1,244.2 | -7% | - | - | - |

investments and equity are consolidated at a Group level, and the results of individual companies are directly included in the result of the Group.

**Profits of the associated and joint venture companies** amounted to €6.2 million and represented 2.7% of the profit realized by the NLB Group before provisions.

**The result minority owners are entitled to** was positive and amounted to €0.8 million in 2009.

## Statement of Financial Position

At the end of 2009, the NLB Group **balance sheet** total reached €19,605.6 million and increased by 4% compared to the same period in 2008, and the NLB balance sheet total with 7% growth reached a total of €15,509.1 million at the end of 2009.

The decline in credit activity that had already begun in 2008 continued. To a large extent, credit activity depends on the possibility of providing sources through borrowing on international financial markets and the growth of deposits from the non-banking sector. On the other hand, due to the Group's precaution and stricter criteria regarding credit approval, credit activity was much more selective. Thus, at the end of the year, NLB Group gross **loans to the non-banking sector** totaled €13,212.4, million which is €302.7 million or 2% less than at the end of the previous year. NLB and companies in the non-banking activities saw the largest decrease, whereas banks on the SE European markets increased their credit volume. Corporate loans fell by €404.9 million, whereas household loans grew by €62.0 million and credits to the government grew by €40.3 million.

**Deposits from the non-banking sector** of the NLB Group grew by €1,276.4 million or 13% and amounted to €10,741.2 million at the year end. At the Bank level, growth totaled 16%. Due to the extraordinary conditions on the market, the state intervened by taking measures and acting as the Bank's depositor. Thus, government deposits contributed as much as €916.3 million to the total increase in deposits from the non-banking sector. Household deposits also increased by 8% or €459.1 million. Changed preferences of the population in insecure conditions, which directed its savings towards more secure and liquid investments, as well as several marketing actions of the Group to increase deposits, affected growth. On the other hand, as expected, due to the crisis in the real sector corporate deposits decreased by €99.0 million or 4%.

In 2009, the loan/deposit ratio decreased by 20 percentage points and totaled 123% at the year end.

Furthermore, the NLB government-guaranteed bond issued in July 2009 in the amount of €1.5 billion represented an important source for the Group.

The majority of acquired sources in 2009 were earmarked to settle liabilities from due long-term financing on international financial markets. Thus, compared to 2008, loans taken decreased by €1,557.1 million or 27% and in June the

Illustration 1:
**Credits to Non-Banking Sector**

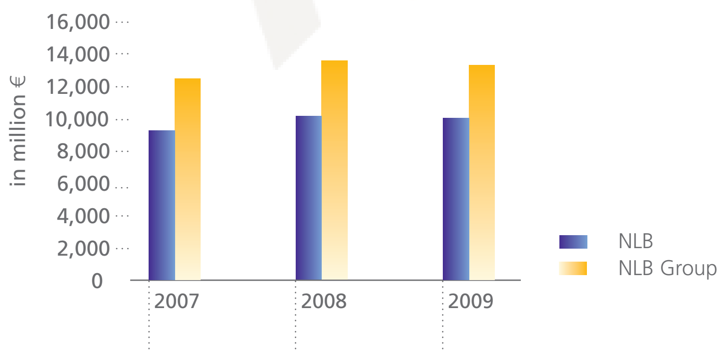
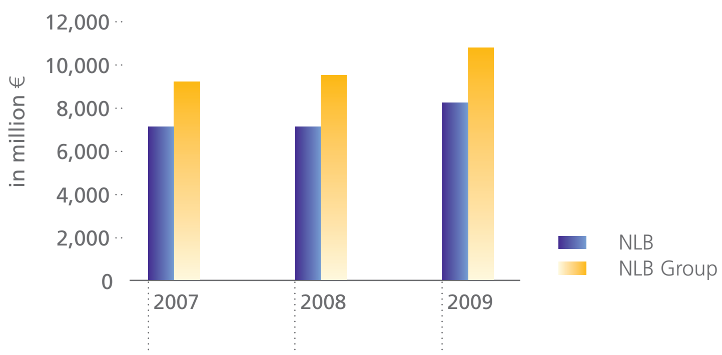



Illustration 2:
**Deposits of Non-Banking Sector**



subordinate instrument in the amount of €50 million was called and paid prior to its expiry.

Due to the conditions on the international financial markets, in 2009 the Bank's conservative policy in providing secondary liquidity reserves, which totaled €3.8 billion at the year end, was even more apparent.

## Capital and Capital Adequacy

At the end of 2009, the **regulatory capital** for the NLB Group totaled €1,735.4 million and was €171 million less than at the end of 2008. Apart from the Group's loss in 2009, which largely resulted in the decrease, exercising the call option on the subordinate instrument in the amount of €50 million, the decrease in minority owner capital due to the purchase of banks in the Group (€26 million), and discount of subordinate instruments falling due within the next five years (€20 million) affected the reduction.

**The capital adequacy** for the NLB Group was 10.7% and the Tier 1 ratio was 7.2%. The reduced capital adequacy compared to the previous year is mainly a consequence of the reduction in capital because capital requirements remained at the level from the previous year.

At the end of 2009, the regulatory capital for NLB totaled €1,261.9 million and was €145.6 million less than at the end of 2008. The capital adequacy was 10.4% and was 1.5 percentage points lower than at the end of December 2008.

Illustration 3:
**Loan/Deposit Ratio**

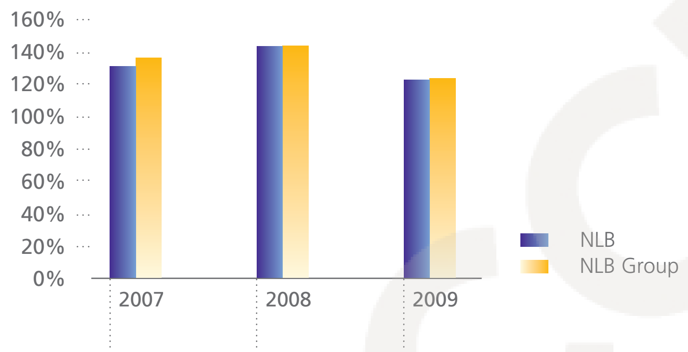



Illustration 4:
**Capital Adequacy – CAR**

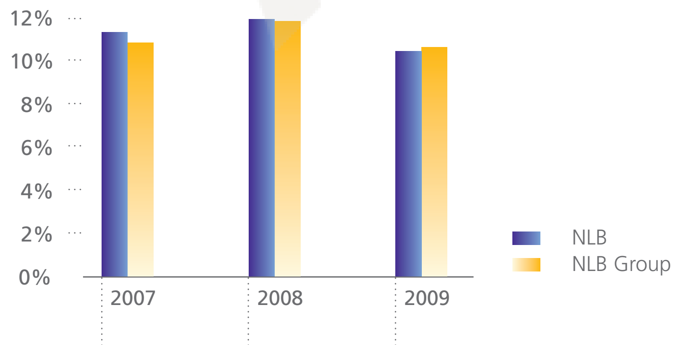
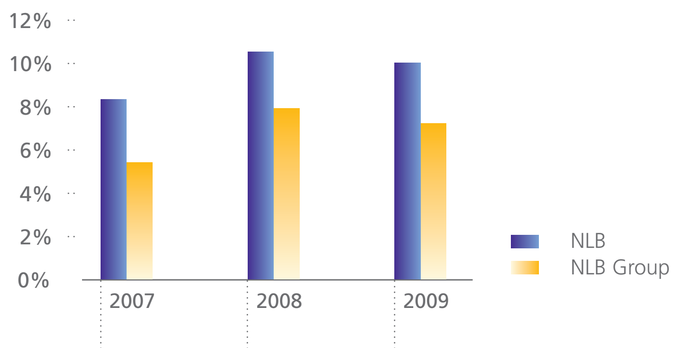



Illustration 5:
**Capital Adequacy – Tier 1 Ratio**



# Risk Management

Risk management is crucial to achieving the strategic objectives of the NLB Group. Using standard risk management methods allows for qualitative assessment of all types of risks, presents timely responses, and reduces exposure to risks.

NLB and its subsidiaries first follow the regulations of the Bank of Slovenia, but additional risk management is also internally regulated.

The limits concerning the extent and the variety of risks the NLB Group members are willing to accept in their business operations are expressed in terms of appetite and tolerance for taking risks. The framework of risk appetite and tolerance is defined by the amount of capital and planned capital profitability, as well as by international ratings and other qualitative and quantitative risk measurements. The way to control the Bank's risk is to minimize risk exposure in order to fulfill the NLB Group's planned business objectives, to minimize damages from operational risks, and to optimize the use of regulatory and internal capital, while taking into account the limits to NLB's appetite and tolerance for risk.

The NLB Group's risk management is based on the following principles:

- Risk management's independence from specific business areas and free decision-making.
- Units responsible for risk management support the Bank's business operations by not restricting their independent decisions. Fulfilling the Bank's business objectives must not involve overly high risks. The NLB Group's entire organizational structure is set up accordingly to ensure effective cooperation of the risk-management units with the Bank's business sections and other financial institutions of the NLB Group.
- A long tradition of using various instruments to manage and assess risk (e.g., management of regulatory and internal capital, proactive determination of the necessary amount of provisions or impairment, risk position, diversification, and other modern methods to manage the portfolio, scoring models, internal ratings, economic capital, etc.).
- Risk-management decisions are based on a comprehensive assessment of various risk factors. As a rule, no decision must be made based only on the result of some specific quantitative model.
- The NLB Group's risk appetite is roughly determined by NLB's international ratings, as well as qualitative and quantitative elements arising from them.
- Regular implementation of adequate reporting and minimum risk-management standards in NLB's subsidiaries and other financial companies of the NLB Group.

In 2009, NLB's consolidation process and the implementation of the risk-management model in members of the NLB Group were continued. Moreover, the NLB Group reinforced its central risk monitoring system. Among other things, this system was also imposed by the economic recession in Slovenia and in most countries in which members of the NLB Group operate.

The most important risk the NLB Group is exposed to is credit risk, which requires very careful and accurate handling during a recession. The same applies to exposure to liquidity risk, which is marked by the negative impact of the global financial crisis on market liquidity and liquidity financing. Furthermore, market risk and operating risk, as well as all other risks set forth by legislation and the Basel II provisions, are important.

## Credit Risk Management

The NLB Group performs credit risk management at two levels: controlling risks for individual clients (i.e., debtors) and supervising credit portfolio risks for members of the NLB Group.

At the level of an individual client (depending on the stage of the relationship with the client) appropriate processes are followed 1) prior to, 2) during, and 3) after entering into a contract. In the first phase, information about the client

Table 7:
**NLB Migration Matrix by Exposure Based on Annual Transitional Matrices for the 1999–2009**

| | Rating 2009 | | | | | |
|---|---|---|---|---|---|---|
| **Rating 1999** | A | B | C | D | E | **Average rating*** |
| A | 95.04% | 4.41% | 0.43% | 0.11% | 0.01% | 4.94 |
| B | 14.56% | 78.95% | 5.29% | 1.13% | 0.07% | 4.07 |
| C | 7.47% | 16.89% | 62.55% | 12.32% | 0.77% | 3.18 |
| D | 0.15% | 9.56% | 7.50% | 72.94% | 9.85% | 2.17 |
| E | 0.00% | 0.37% | 0.14% | 0.33% | 99.15% | 1.02 |

* Note A=5, …., E=1

Table 8:
**Non-Performing Loans in NLB**

| | **31.12.2007** | **31.12.2008** | **31.12.2009** |
|---|---|---|---|
| Non-performing loans (in thousand €) | 162,688 | 276,056 | 508,118 |
| Non-performing loans / total loans | 1.66% | 2.52% | 4.49% |

Note: Non-performing loans are defined as loans to D and E rated clients and amounts of loans to A, B and C clients that are more than 90 days past due.

Illustration 6:
**NLB Total Portfolio Structure by Client Segment as of December 31, 2009**

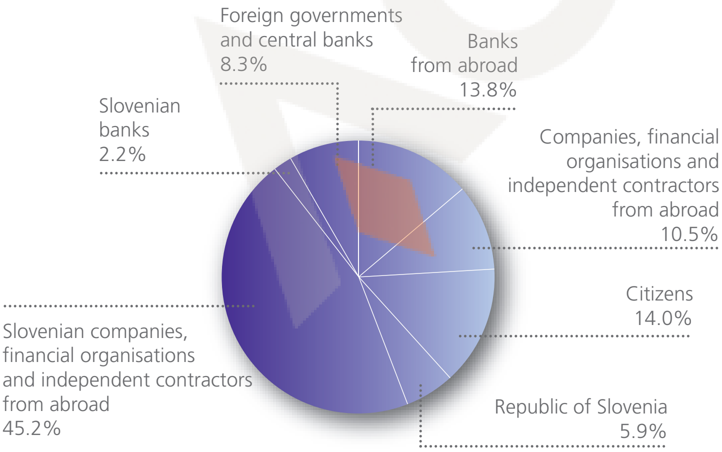
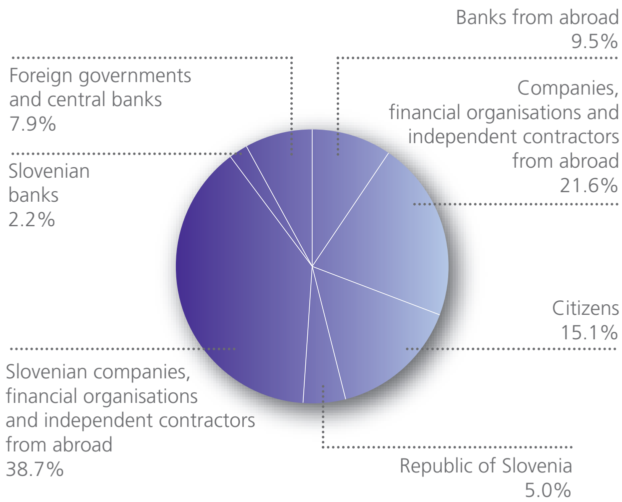



Illustration 7:
**NLB Group Total Portfolio Structure by Client Segment as of December 31, 2009**



(which should, among other things, result in an objective assessment of the client's financial standing and credit rating, as well as determination of the upper limit of indebtedness) is key. In the second phase, it is essential to draw up an appropriate contract, stipulating insurance and obligations.

The third phase consists of various forms of monitoring the client with respect to regular loan repayment and other relevant data that affect the client's creditworthiness or the necessity to form and/or change the amount of established impairments.

The credit portfolios are regularly reviewed by category (credit rating, country, type and size of client, activity, insurance, non-performing/expired receivables, currency exposure, etc.). Monitoring includes an analysis of changes and on the bases on time-sensitive dynamics, an assessment of risk trends and the concentration of credit portfolios. One of the more important instruments for reviewing and assessing the quality of the credit portfolio and characteristics of internal rating systems, as well as the level of exposure to system risks, is the rating migration matrix of clients within credit-rating categories along with related methods to determine time-sensitive portfolio changes. Furthermore, appropriate methods regularly assess and measure the level of concentration or diversification of credit portfolios. NLB regularly reviews the business practices and credit portfolios of its members to ensure that they are operating in accordance with the minimum risk-management standards of the NLB Group. This ensures appropriate uniform practices for managing and reporting credit risks at the consolidated level.

The financial crisis coincided with and accelerated the following trends in credit policy:
– Need for more qualitative insurance, while consistently considering insurance coverage ratios, whose value is measured on the basis of the true value concept;
– Increased establishment of impairments of receivables and reserves for liabilities;
– More accurate and strict credit handling of clients;
– Central review and advising on approval of investments by NLB Group members.

## Liquidity Risk Management

To efficiently manage exposure to liquidity risk and to avoid liquidity gaps, the Bank applies several indicators and liquidity models, and also prepares various scenarios for exceptional situations, taking into consideration the Bank's specific crisis or a system crisis affecting the wider economic environment. Furthermore, the Bank adopted a crisis strategy as an action plan to control exposure to liquidity risks in the case of a liquidity crisis.

Liquidity risk management is carried out in compliance with the relevant policies and strategies defined by the responsibility policies and rules. Minimal standards for liquidity risk management were implemented in NLB Group members by the Bank's *NLB Group Liquidity Risk-Management Strategy*.

## Market Risk Management

The NLB Group's exposure to various market risks (foreign exchange rate risks, interest rate risk in the banking book, and other market risks in the trading book) is comparatively small. The NLB Group is relatively conservative in its approach to managing exposure to market risk, which is also indicated by appropriate system limits and processes defined by policies and other documents adopted at the Group level. The NLB Group Assets and Liabilities Committee carries out precise evaluations of all kinds of market risks and individual limits.

Table 9:
**VaR Figures for NLB in 2009**

| in thousand € | Average value | High value | Low value |
|---|---|---|---|
| Currency risks (trading book and banking book) | 1.966 | 3.194 | 57 |
| Interest rate risks in trading book | 453 | 966 | 108 |
| Securities price change risks (shareholders' portfolio) in trading book | 4.814 | 7.786 | 3.386 |

Some of the NLB Group's activities are decentralized, whereas others can only be performed by NLB; the example of the latter are services connected to the trading book performed by NLB for other members of the NLB Group because, in accordance with the regulations of the Bank of Slovenia, NLB is the only bank that has trading activities within the Group. NLB's main focus is to provide customer service ("back to back" transactions) and asset management, whereas trading for ones own account is carried out on a lower scale. The other Group members mainly monitor foreign exchange and interest rate risks that are primarily the result of structural fluctuations and macroeconomic conditions. NLB is conservative in its approach to managing exposure to foreign exchange rate risks. It minimizes such risks by closing open positions within set limits on a daily basis. Regarding exposure to interest rate risks, NLB actively manages open positions by applying derivative financial instruments in accordance with the "hedge accounting" principle. Most of these risks arise from the first-rate EMU debt securities (ECB-eligible) portfolio because the Bank formed an appropriate level of secondary liquidity reserves that, under the given circumstances, allow efficient operational liquidity risk management.

Monitoring and managing exposure to market risks is in general supported by modern internal methodologies tailored to comply with the Basel standards. Furthermore, stress tests are performed on a regular basis. The Group saw the implementation of a standardized current reporting system that ensures adequate control over the market risks that all companies of the NLB Group are exposed to. The methodologies comply with the requirements of the regulators on an individual and group level, and current reporting to a regulator follows a standardized approach. In compliance with the Bank of Slovenia requirements, the NLB Group provides adequate capital funds to cover potential unexpected losses due to exposure to foreign exchange rate and other market risks.

## Operational Risk Management

In order to monitor and manage exposure to operational risks, NLB implemented a system to monitor loss events, as well as to identify and assess operational risks. To assess potential losses, fundamental risks are identified and evaluated.

Within the NLB Group, knowledge and methodologies are transferred at the level of both the Bank and the other members. All companies have adopted documents that are in compliance with NLB standards. Thus, NLB's model of monitoring and managing operational risks has been implemented in the entire NLB Group.

Table 10:
**Estimated Impact of Yield Curve Fluctuation by +/- 10 Basic Points on Banking Book Position (BPV) in 2009**

| In thousand € | Average (estimate) | Minimum (estimate) | Maximum (estimate) |
|---|---|---|---|
| BPV value | 3.624 | 3.316 | 3.820 |

# Information Technology

In 2009, the Bank implemented its adopted information technology strategy, while continuing the consolidation of its IT architecture to reduce the number of solutions in use and to increase cost-effectiveness. In addition, great focus was directed towards developing solutions to provide high-quality customer support services, commencing to revamp e-banking for natural persons and ensuring compliance with laws, and completing consolidation of supports after mergers by abandoning all solutions in the affiliated banks.

In order to control costs, in 2009 NLB started to more intensely take over the IT support for packages and solutions acquired during the past years, while continuing its cooperation with local IT suppliers in software development. In the coming years, major projects will focus on upgrading electronic and mobile banking solutions for both banking and non-banking products, as well as consolidating support in securities. The Bank will continue to include local IT suppliers along with its own experts on its projects in order to obtain and preserve the necessary expertise.

In **retail banking** the support system is very stable as the transfer of knowledge has practically been concluded and the Bank is in a position to perform necessary upgrades itself. Upgrading the support system was carried out in line with new products, more efficient counter services, and meeting regulator requirements. The Bank thus provided users with greater security for card payments via e-transactions and for e-banking in general. The most important improvements in this area are linked to the development of a support system to provide clients with uniform service desk. Via supporting electronic channels, the Bank integrated solutions to manage clients' card transactions and thus increase efficiency. In 2009, NLB started to upgrade retail e-banking solutions, facilitating a modular approach to provide customers with solutions in which they may tailor available functionalities to meet their needs. The upgrade will also ensure the completion of security architecture solutions in order to facilitate an efficient and cost-managable introduction of security solutions, while taking into consideration recognized threats from the environment. By continuing to phase in the e-archive, NLB has enhanced the back office departments' efficiency and providing individual key retailers with the introduction of POS IP-connectivity.

In **corporate banking,** immediately after concluding the introduction of the T24-system, NLB started to upgrade T24 (i.e., transition to a four-level higher version) while replacing the database with DB2 as the Bank's strategic platform. The project was extraordinarily challenging, and yet the transition was carried out without any disruptions to the Bank's business operations. Furthermore, the Bank continued transferring the business accounts from the old support system and preparing a strategy for their actual elimination after concluding the process within the next two years. In 2009, NLB developed a support system for guarantees and will start transferring the respective accounts to T24 at the beginning of 2010. The POND investment approval support solution was continuously adapted to the introduction requirements of the support system for guarantees and other products in T24. Along with its partners, the Bank successfully introduced electronic exchange of invoices and their integration in e-banking, which will provide NLB's clients with simplified business operations in the future.

Regarding the **payment support system,**the majority of activities in 2009 were linked to NLB's successful introduction and integration in the standardized SEPA payment system. The Bank fulfilled and introduced all requirements in due time, except for the SEPA DD payments, because at the national level the decision was made to postpone the introduction to 2010. By revamping the direct debit system (ADONIS), preparing solutions for the transformation of mass payments, starting the migration of inter-bank standing orders, and completing the foreign currency cross-border payment support system and the international rent payment support system, the objectives of simplifying the IT architecture and economizing IT processes were fulfilled. Thus, several additional old applications could be eliminated. In 2009, the Bank also carried out adjustments linked to the implementation of the new Payment Services Act (transfer of European laws into the Slovenian legal system, Payment Service Directive).

In order to better manage **financial instruments trading risks,** NLB introduced the Kondor + TP system for trading support for derivatives. In the course of the year, the Bank changed the trust fund support system, thereby starting to simplify support in the custody segment. Furthermore, NLB continued to revamp its brokerage support system and to analyze solutions on the market suited for introduction in the support system to directly include customers in e-trading systems.

Reporting was often changed over the past years because the regulators kept changing requirements. In 2009, the Bank introduced key changes by implementing a standardized client and client group register in the NLB Group, as well as a comprehensive system disclosing the NLB Group's business relationship with individual clients or client groups. In order to better manage risks, in compliance with the Basel II provisions, the Bank prepared a standardized support system for managing and assessing investment insurance. In 2009, all mortgages were recorded and, in the future, all other collateral will be recorded in the support system.

In 2009, the Bank selected the new ERP support system (Enterprise Resource Planning). The PEXIM package will be introduced and used in the general ledger as of January 1, 2010. During the first half of the year, its overall integration in the Bank's information system will be finalized.

In IT infrastructure, the Bank established IP-links to all of its branches, as well as a BA-pilot link that will and has already resulted in considerable savings in communications, while improving opportunities for monitoring and developing new ATM services. The extranet technical support system introduced last year enabled secure connection by NLB Group members and an effective introduction of common solutions. The Bank carried out an overall system and communication upgrade of all platforms and relational databases, as well as of the operational system on the mainframe computer. Moreover, a quarter of the workstations saw an upgrade of their Vista operating system. In the future, the Bank will focus on projects to introduce a Services Oriented Architecture (SOA) and virtualize server systems. With the introduction of the internationally acknowledged COBIT framework in 2009, the Bank continued its activities to improve IT processes in order to decrease operational risks. The Bank's IT center maintains its ISO 9001 quality certificate despite changing the assessor after ten years. In 2009 NLB also managed a high online availability rate at a yearly average of 99.75%.

In 2009, NLB continued to play a more active role in directing information technology projects within the Group. Packages used in member banks of the NLB Group were further standardized, contributing to easier merger of individual banks and standardized business operations. This will enable the NLB Group to create suitable IT support centers to prepare individual solutions and to improve the quality of its relations with suppliers. NLB's IT experts are actively involved in projects revamping the IT system of these banks, as well as in determining and introducing standardized security and other IT standards.

# Retail Banking

The NLB Group provides the general public with comprehensive, high-quality, and competitive financial services in Slovenia and abroad, always complying with its clients' and individuals' diverse requirements and needs. NLB's retail banking is based on mutual understanding, trust, and cooperation. NLB's services and modern marketing channels comply with the global trend. Among the banks in Slovenia, NLB has a leading market share in traditional banking services, as well as modern marketing channels. Together with the NLB Group members, it is also successfully establishing itself among other financial suppliers.

NLB provides its clients with a **business network,** including 158 branch offices for retail banking and 710 ATMs at customers' disposal throughout Slovenia. NLB's branch office and ATM network is completed by an additional 338 branch offices and 409 ATMs throughout the markets of SE Europe. Skilled advisory personnel in the branch offices provide NLB's various customer segments with comprehensive financial advisory services and various other services. By linking traditional marketing channels and advisory services with modern marketing services, the Bank ensures its clients quick access to advisory and financial services without having to visit a branch office.

By the end of 2009, more than 839,000 residents of Slovenia had opened a personal account with NLB, which is 41% of Slovenia's population. NLB's services include twelve different personal accounts, catering to the special needs of its various client segments.

Private banking and the Platinum Package, which ensure top-notch features and advisory services, quality asset management, and other specialized financial services, are intended for the most demanding and most affluent customers. The Gold Package and personal banking services are tailored towards highly demanding and financially powerful clients. Personal bank advisors ensure their customers comprehensive financial advisory services, as well as banking via traditional as well as modern channels. Personal and private banking is used by 11% of NLB's clients. NLB's services for young people cover their needs for banking services from birth to full employment. Furthermore, NLB provides young people with attractive rates; for example, free management of personal accounts and more attractive interest rates for savings and loans. Furthermore, in 2009, the Bank dedicated more attention to senior citizens, young families, new clients, and NLB employees. The Bank prepared new packages, providing customers with additional financial benefits, while offering them more services. This contributed to NLB successfully achieving its sales objectives.

In retail **deposits,** NLB actively promoted the provision of its own funds. The "Super Deposit" marketing, communication, and sales campaign contributed to restructuring short-term investments into long-term investments. The growth of all household deposits amounted to 5% in 2009, whereas the long-term deposit portfolio grew by 38.6%. In 2009, the share of long-term deposits in all deposits of natural persons increased to 38.5%, equaling a market share of 44.4% of all long-term deposits of Slovenia's population.

Due to the circumstances on the financial markets, clients directed fewer funds into **other investment vehicles** offered by the NLB Group. NLB's services cover the entire national and international financial markets, offering different profitability and risk levels. The NLB Group's services include 15 NLB Skladi mutual funds, two guaranteed funds, and eight bank-insurance funds. The second half of the year will be characterized by reviving other financial investment vehicles through marketing packages in connection with traditional deposits and a new selection. Furthermore, NLB introduced new forms of insurance: individual accident insurance for personal account holders and collective life insurance for clients requesting exceptional overdraft limits.

In retail **loans,** NLB's portfolio achieved a 4.7% increase in 2009. The biggest increase was achieved in mortgage credits, the volume of which increased by 23.1% in 2009, and by real estate loans (including the National Housing Savings Scheme, NSVS), which grew by 8.7%. On the other hand, a decrease in car loans and personal, non-secured loans was characteristic in 2009. Despite unfavorable conditions, NLB preserved its stable financial position with regard to natural persons in 2009, maintaining a low percentage of outstanding claims in this segment.

In **credit card operations,** the Bank increased customer confidence by gaining new partners for the "EnKa" loyalty program. In 2009, NLB prepared special "EnKa" campaigns designed for young people, retirees, and wealthier customers. NLB patrons held

1.4 million cards with which they made purchases totaling €1.7 billion. By number and volume, BA Maestro debit cards still prevail. In 2009, NLB started to upgrade the POS network with IP and GPRS terminals, and also introduced secure MasterCard and Visa payment systems in compliance with the valid international 3D Secure standard.

In 2009, NLB Klik **e-banking** was upgraded with new features to increase safety by introducing additional security passwords for payments, and new content-related features applied to bringing the Bank's business operations in line with the national SEPA payment system and the Payment Services and Systems Act, and e-invoices (i.e., e-login). At the end of 2009, NLB Klik already covered 28.2% of applicable personal accounts.

NLB's revamped **Web Portal,** totaling an average monthly user number of 800,000, is being continuously improved with new functionalities, up-to-date information, and services. The portal also allows direct communication with NLB's advisory staff or subscription to the NLB e-newsletter.

On the **SE European** markets, the amount of retail accounts exceeded one million and is continuously growing. Despite the economic situation, which mostly affected the Serbian and Montenegrin region, household assets increased by 23%. In 2009, the NLB Group banks on the SE European markets continued to modernize their branch offices to comply with NLB standards and thus enable them to utilize modern business operations and change from transaction to advisory banks even faster. More than one-third of the branch offices, of which the majority are in the most important locations, were modernized. Above all, the NLB Group expanded its network of branch offices in line with opportunities and in areas of low presence. The Bank further optimized its business network by merging banks (NLB Banka, Beograd). Therefore, the total number of branch offices could be decreased. In 2009, the ATM network grew by 20%. Furthermore, the NLB Group banks introduced personal banking services for their best clients. The changed and adapted services provide services of the highest quality and contribute to reinforcing client satisfaction. In 2009 adopted minimum standards for the retail sector will contribute to an even quicker harmonization of the business operations in the region, thus allowing the introduction of modernized business operations. Moreover, the NLB Group banks saw the introduction of the "NLB Welcome" service, offering all NLB Group customers simplified processes in the case of loss or theft of personal and bank documents by all NLB Group branch offices, while personal banking customers enjoy additional benefits and appropriate handling. The card sector, which is one of the major development potentials on the SE European markets, is developed in all banks. Turnover with cards grew by 29% compared to 2008.

Illustration 8:
**Retail Credit Growth in NLB**

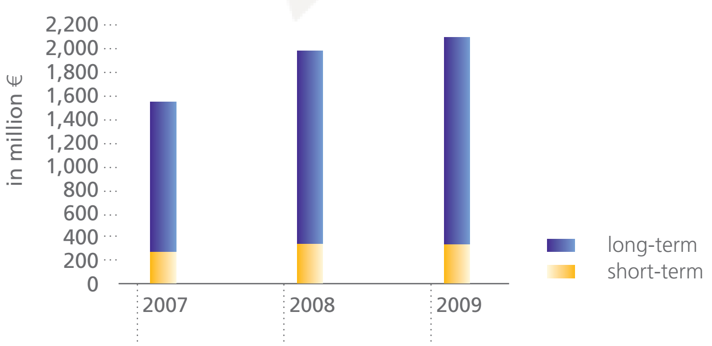
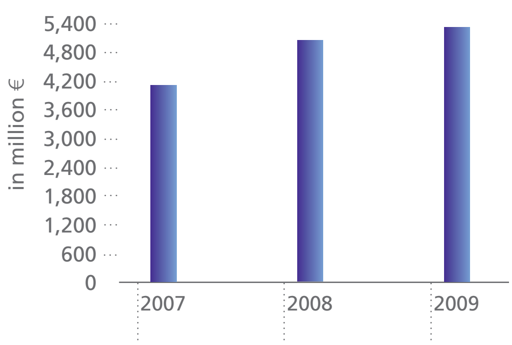



Illustration 9:
**Retail Deposit Growth in NLB**



# SMEs and Corporate Banking

NLB is a bank that listens to its clients' changing needs and offers a comprehensive portfolio of services they require for their business, including its expansion on both the Slovenian and international markets. As a result, its clients can take advantage of NLB's synergistic expansion of its business operations and simultaneously use the synergy offered by the NLB Group's presence on the markets, towards which the Slovenian economy is also inclined.

In 2009, corporate banking was characterized by restrained economic activity, which resulted in decreased credit activities. In 2009, the volume of corporate loans decreased by 2.7% compared to 2008. In spite of adverse economic and market conditions, NLB succeeded in keeping a stable company investment portfolio.

## Banking with Small and Medium-Sized Enterprises (SMEs)

At the end of 2009, 62,749 corporate accounts of medium-sized, small, and micro-sized enterprises, as well as independent contractors, were open at NLB. NLB provides demanding small and medium-sized enterprises with a comprehensive portfolio of services, custody, and consulting offered by 20 specialized branch offices established to work with companies and independent contractors. Less-demanding customers may also opt for custody provided by the branch offices for retail banking. Custodians, in cooperation with various experts, provide enterprises with optimum solutions for their businesses.

In 2009, NLB fulfilled the objectives set by the Policy and Strategy for the SME Business Segment. The Bank marketed a customer-tailored package (the "Business Package") intended for new and current customers, prepared special accounting service offers, including numerous benefits provided by NLB and other NLB Group subsidiaries, and promoted the use of key services. In order to obtain long-term resources for small business loans, NLB upgraded its EIB loan portfolio with loans from assets provided by the Council of Europe Development Bank (CEB) and the Slovenian Export and Development Bank (SID). Furthermore, the Bank's subsidiaries developed products for the small-business segment. In 2009, NLB Vita presented life insurance for legal entities, as well as private undertakings wishing to take out a loan, which was particularly attractive to family-run enterprises. In electronic banking, NLB improved the functionality of its Proklik e-banking service and E-Invoicing System, providing users with a wide range of opportunities to economize and simplify their transactions.

Despite marketing various services and promoting loans from the EIB fund, **loans** given to small businesses and independent contractors by the NLB network decreased by 3.9% in 2009.

In comparison to the previous year, in 2009, the growth of **deposits** from small businesses slowed down. Deposits increased by only 3.0%, with demand deposits and short-term deposits prevailing.

In 2009, the business network of the **SE European** markets saw a combined increase in both loans and deposits. The process of establishing specialized branch offices for enterprises and independent contractors is still in progress, but business operations with small and medium-sized enterprises have already been decentralized in banks at all 159 locations.

The Bank encourages the growth of international and Slovenian small businesses by cooperating with EU funds, state institutions that support the development of small businesses, chambers of trade and commerce, and municipalities, as well as by organizing various professional training events for companies.

## Corporate Banking

Compared to the previous year, the credit portfolio in the corporate segment declined by 4%. With respect to maturity, the structure of the credit portfolio changed slightly in 2009. The share of long-term loans, which represented the largest share within the credit portfolio structure at 65%, increased by 4%, whereas short-term loans accounted for the remaining 35% of the credit portfolio.

The Slovenian government implemented several anti-crisis measures to relieve the credit crunch. On the basis of the adopted Republic of Slovenia Guarantee Scheme Act and in compliance with the authorization of the Ministry of Finance, in the middle of 2009 SID

Bank started to implement Republic of Slovenia guarantee schemes for companies and cooperative institutions. The purpose of the Republic of Slovenia guarantees was to lessen the effects of the economic and financial crises and to improve companies' liquidity. NLB actively participated in the implementation of the Republic of Slovenia guarantee schemes. At auctions, it obtained a guarantee quota in the amount of €67 million, on the basis of which it granted €127.9 million worth of loans guaranteed by the Republic of Slovenia.

Corporate **deposits** were an important source for managing liquidity in 2009. At the end of 2009, deposits had grown by 8.0% compared to the end of 2008. The deposit structure saw a gradual increase in the share of long-term deposits, which amounted to 8% at the end of 2009, compared to 5.6% at the end of 2008. At 57.8%, short-term deposits accounted for the largest share, and demand deposits totaled 34.2%.

In 2009, NLB successfully upgraded its overall system of managing its business relationship with joint NLB Group clients. In order to improve investment approval processes at the NLB Group level and the proactive approach towards credit risk management, NLB set up a practical solution, ensuring information support at the NLB Group level. Thus, NLB improved the conditions for synergistic effects on all strategic markets, while also ensuring support to the traditionally export-oriented Slovenian economy.

### International Financing

The NLB Group has been active in international banking for several years. With its network of banks and non-banking institutions, the Bank maintained and strengthened its business relationships with foreign banks and multilateral financial institutions, which, given the adverse conditions on the financial markets, was of key importance, especially regarding the funding activities on international markets.

In accordance with the NLB Group's strategic policies, the Bank further developed and expanded its international business operations, especially on the markets where the NLB Group has banks and non-bank members. Furthermore, NLB adapted its international expansion and business policies to the tougher conditions on the international markets and to economic movements. Despite adverse circumstances, NLB succeeded in maintaining a stable volume of its international business portfolio, totaling almost €1 billion.

Due to restricted access to financial and capital markets, NLB directed the majority of its business operations in international credit activities towards ensuring financial resources to NLB Group members. Thereby, NLB indirectly facilitated funding NLB Group clients, thus supporting the NLB Group members' aspired market position.

Illustration 10:
**Corporate Credit Growth in NLB**

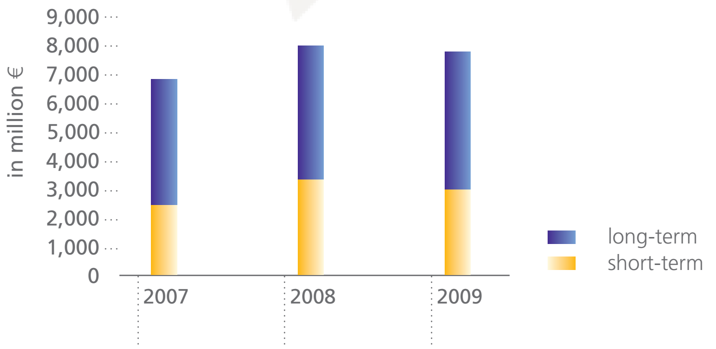
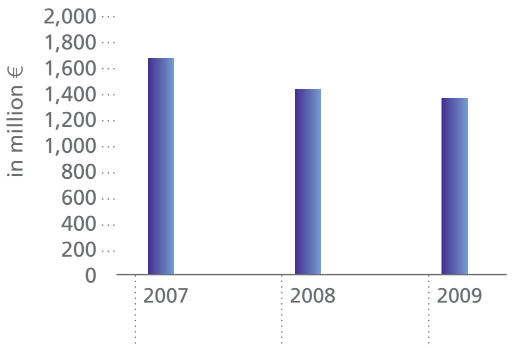



Illustration 11:
**Corporate Deposit Growth in NLB**



In direct financing of foreign strategic clients, the majority of loans were intended for financing operating current assets, allowing for synergistic effects at the NLB Group level, because under the unstable economic conditions companies decided to invest only in exceptional cases.

In export financing and insurance, NLB concentrated on the markets with export-oriented clients. Apart from the strategic markets where the NLB Group is already present, these also include the former Soviet markets, where most of the business is done with Russia, as well as to a smaller extent with Ukraine, Belarus, Kazakhstan, and other countries. Regarding its financing activities of export businesses, the Bank followed the trade flows in these countries.

Regarding larger projects on foreign markets, NLB cooperates with the Slovenian Export and Development Bank, which offers commercial and non-commercial risk insurance for businesses. The cooperation with the Slovenian Export and Development Bank mainly applies to financing exports to the Russian and other former Soviet markets.

The Bank maintains and upgrades a comprehensive portfolio of services for SMEs and Corporates.

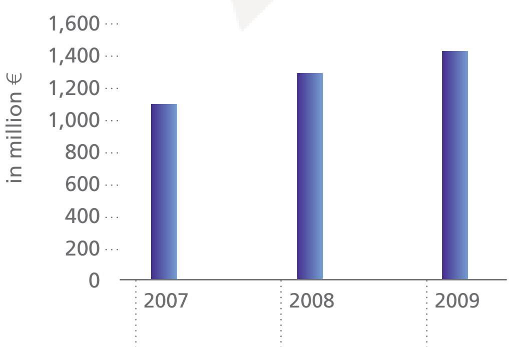
### Cash Management

Liquidity and greater cash management efficiency are of central importance for companies. Therefore, cash management services are an important instrument for the NLB Group, especially for companies operating internationally. The NLB Group thus provides a broad range of comprehensive solutions that clients are using increasingly more.

### Assistance in Obtaining EU Grants

In order to maximize the opportunities for Slovenia from the financial standpoint during the 2007–2013 period, NLB provides counseling services to private and public businesses when their projects are eligible for financing by non-fundable grants from the EU. The Bank provides a full range of services: it informs its clients of current availability of public tenders, advises in the preparation of project proposals, helps devise optimal financing for projects, and approves appropriate investments. By offering such a broad range of services to companies seeking free EU funding, NLB also assumes its role as a leading financial institution in this field.

Illustration 12:
**Volume of Issued Guarantees in NLB**




### Documentary Business

In 2009, the volume of NLB bank guarantees continued to grow. Due to the economic situation in the world and in Slovenia, the guarantee portfolio structure underwent a change. There was an increase in the volume of credit repayment guarantees issued, as well as other payment guarantees. Letters of credit and collection transactions showed a slight fall compared to the previous year.

The fall in letters of credits was noted by all world banks (research by the International Chamber of Commerce). The trend toward using specialized instruments (such as domestic letters of credit, document dependent transfers, use of fiduciary accounts, etc.) continued to grow and attract interest from clients.

Regarding the use of international checks, the volume of these checks remained static, confirming the prevalent trend throughout the world. However, an increase in the amount of falsified checks and check fraud attempts were noted.

### Card Operations

NLB has issued 51,389 business charge cards, of which 73.6% are debit cards. NLB offered business partners from various branches the possibility of various bonus systems for its loyal clients, using different campaigns as part of the EnKA loyalty program.

### Electronic Operations

In 2009, NLB's Proklik e-banking service was adapted to handle domestic payments within SEPA and the Payment Services and Systems Act. At the end of 2009, Proklik had 44,488 users, which represents an 8.8% increase compared to 2008. In 2009, NLB's new E-Account service became even more popular among users of NLB Proklik and NLB Klik because the bank has made it possible to register and prepare invoices online (within the e-bank) as part of its E-Invoicing System. In addition to issuing and receiving invoices, e-account users can now register through the e-bank and receive e-invoices from the issuers included, manually enter e-invoices via NLB Proklik, and save e-invoices in the e-archive.

# Financial Markets

## Asset and Liability Management

### Liquidity Management

The NLB Group performs liquidity risk management at both the operative and the structural levels. In order to ensure the Bank and the NLB Group's liquidity, liquidity reserves were of the utmost importance. In 2009, despite the financial crisis, the Bank succeeded in increasing such reserves (at the end of 2008: 26.3% of total assets, at the end of 2009: 28.2% of total assets), thus ensuring a high security level of business operations despite the extraordinary stressful situation. The Bank may use secondary liquidity reserves, which include adequate (ECB-eligible) securities and appropriate bank loans to insure receivables when borrowing via ECB instruments or when concluding REPO business transactions on the inter-bank market. Despite the crisis, the Bank succeeded in issuing its own government-guaranteed bonds abroad, which, apart from the ECB's changed monetary policy with unrestricted quotas for allocating liquid assets and the Bank's interest rate policy, which was adapted to the conditions, contributed to the Bank's and the entire NLB Group's success in liquidity management.

### Foreign Exchange Risk Management

The Bank controlled exposure to foreign exchange risks by taking positions in individual currencies compliant with the set limits. The Bank regulates currency exposure by concluding business on the foreign exchange market or with established currency derivatives.

### Interest Rate Risk Management

The Bank regulates exposure to interest rate risks using balance-sheet and off-balance-sheet items in compliance with the objectives and restrictions stipulated by its internal Interest Rate Risk-Management Policy. The Bank monitors exposure to interest rate risks using the methodology of interest rate sensitivity gap reports. Furthermore, the Bank analyses sensitivity on the basis of the BPV (Basis Point Value) method to estimate the change in the market value of the bankbook position as the result of the parallel movement of the yield curve. In managing securities in the bankbook, great attention was paid to ensuring quality securities enabling unproblematic acquisition of liquid assets at any time, which, considering the financial crisis, was of even greater importance. The Bank ensured fulfilling this objective by almost exclusively purchasing EMU debt securities, which are ECB-eligible. NLB regularly monitored exposure to interest rate risks at the Group level in compliance with the adopted risk development and management program of the NLB Group. It intensified its activities of interest rate risk monitoring and management in individual NLB Group members and gradually implemented the same basic interest rate risk-management principles as applied by NLB, while always considering the respective local business environment. The Bank monitored exposure to interest rate risks using the methodology of interest rate sensitivity gap reports.

## Funding

### Long-Term Funding

2009 was characterized by continued tough conditions on the financial markets. Nevertheless, with the support of key foreign banks, NLB concluded several important transactions on the international financial markets. NLB's solid business operations during the times of crisis, its first-rate reputation, and outstanding relationships with international financial institutions certainly contributed to the success.

In 2009, NLB, together with a group of international commercial banks, concluded a one-year renewal of the syndicated loan to cover general financing needs and refinancing in the amount of €405 million, thus confirming its successful business operations. NLB also coordinated NLB Group members' operations in the international financial markets. In its efforts to harmonize NLB Group operations, NLB provided expert advice to its members in their international borrowings. In 2009, members of the NLB Group took out loans totaling €36.9 million.

In borrowing, NLB cooperated with several multilateral financial institutions: the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank (CEB), Kreditanstalt für Wiederaufbau (KfW), the International Financial Corporation (IFC), the European Fund for Southeast Europe (EFSE), and the Slovenian Export and

Development Bank (SID). The loans were intended to finance SMEs, municipalities, and both major Slovenian projects and projects of NLB Group member countries. In 2009, NLB raised €250.7 million long-term credit lines from the Slovenian Export and Development Bank, €50 million from the CEB, and €20 million form the EIB. The total amount of loans borrowed from multilateral financial institutions in 2009 equaled €320.7 million. In 2009, financing of NLB Group members by international financial institutions was also quite extensive. NLB Group members took out loans from them totaling to €91 million: €10 million from the IFC, €22 million from the EFSE, €16 million from the KfW, €3 million from the EBRD, €20 million from the EIB, and €20 million from the SID Bank.

In July 2009, NLB was the first Slovenian bank to issue extraordinarily successful three-year maturity bonds guaranteed by the Republic of Slovenia on the international financial markets in the amount of €1.5 billion with a coupon of 3.25% p.a. The bonds are listed on the Luxembourg Stock Exchange. The issue attracted various investors from all over Europe. NLB thereby diversified its creditor base and confirmed its reputation on the international financial markets. The majority of investors were from Germany, investors from Slovenia amounted to approximately 6%. Institutionally, the largest share of the bond was allocated to institutions (i.e., banks and funds), followed by insurance companies, pension funds, and other investors.

## Trading

In trading, the Bank was very successful despite the difficult conditions on the financial markets. The turnover for most products and the collective business volume increased, and the previous years' economic result also improved. In retail banking, the somewhat more difficult year was reflected in the real sector. Companies generated less international business. However, the companies' revenue loss was successfully compensated for by adequately responding to the crisis and trading on its own account, where the Bank succeeded in improving the result.

### Currency Trading

In 2009, NLB concluded over 16,522 exchanges totaling over €6.2 billion. The volume increased by 17%. Most transactions took place in the most important global currencies, such as the euro, US dollar, Swiss franc, Japanese yen, and British pound. In addition to these, NLB is increasing its transactions in SE European currencies, such as the Croatian kuna, Serbian dinar, Bosnian convertible mark, and Macedonian denar.

### Money Market

In 2009, the turnover in inter-bank deposits totaled €34.6 billion. The majority of transactions were made in euros and dollars with a majority of up to one month. The volume of currency swaps amounted to €2.0 billion; the most important currency pairs were EUR/USD, EUR/CHF, EUR/CZK, and EUR/RSD. The Bank was also active in concluding temporary sales of debt securities (i.e., REPO transactions), generating a turnover of €880 million, and in trading short-term debt securities (ECP purchases), totaling €450 million.

### Trading with Clients

The competition in financial instruments became even tougher in 2009. The financial crisis, which hit companies to the full extent and reduced their business, strongly influenced the number of potential customers and their business volume. Nevertheless, the Bank continued the course it embarked on in 2008 and focused on the quality of its services with special attention to individual customer treatment and maintaining personal relationships with its clients. Due to the difficult situation, clients became more careful and mainly used "plain vanilla" financial instruments to hedge interest and foreign exchange rate risks. The business of clients that we accompanied during the crisis somewhat recovered, which was also apparent from the business volume, which doubled compared to the first quarter.

### Debt Securities Trading

In 2009, the debt securities portfolio was restructured and decreased by approximately €100 million to €21 million. In part, this concerned the redistribution of two bonds (DRS2 and BCE11) in the bankbook, in the group of loans, and in part the sales of some government and some less liquid bonds. The bonds that remained in the portfolio were illiquid and the Bank will hold the majority of these bonds until maturity. Therefore, the debt securities portfolio became truly tradable because only liquid bonds and, above all, futures are traded.

NLB is one of twelve primary dealers of the Ministry of Finance (there are another seven liquidity custodians) participating in the MTS Slovenia trading platform. The 19 banks (apart from NLB, there are another two Slovenian banks) function as liquidity custodians for six government bonds, meaning that NLB is prepared to buy and sell €2 million of all six bonds at any time. Listing and trading on this platform represents competing with the world's biggest banks.

### Derivatives Trading

In 2009, the market for derivatives was quite difficult. The 2008 trend involving an increased demand for simple possibilities to hedge foreign exchange rate risks (futures contracts and currency options), and interest rate risks (especially the instrument of interest rate swap) were even stronger in 2009.

Compared to the previous year, in 2009 NLB strengthened trading in its own name and on its own account, especially in currency trading, and in standardized futures the Bank expanded its portfolio in order to prepare a sound basis for business operations with companies in this area.

## Stockbrokerage and Investment Banking

### Stockbrokerage

Following last year's fall in share rates, 2009 saw fresh growth in the rates on the Ljubljana Stock Exchange. The SBI20 stock exchange index increased by 10.24% from the beginning of the year to the end of the year. From January to December 2009, NLB's transactions concluded on the Ljubljana Stock Exchange totaled €227.5 million, representing a market share of 13%. In the same period, the Bank concluded transactions in the amount of €230.7 million on foreign capital markets, and the volume on the over-the-counter market totaled €237.7 million.

### Asset Management

NLB has a long tradition of providing asset management services. It offers its current and potential clients a broad portfolio corresponding to their investment objectives and risk profile, and provides investment counseling services for institutional investors. The key criteria for the Bank's work and services are a long-term investment horizon, transparency, and cost-effective customer services. 2009 was marked by improved capital market conditions, facilitating a broader portfolio of services, successful marketing in cooperation with the Bank's business network and, as a consequence, increased managed assets. At the end of 2009, the volume of managed assets amounted to €74.4 million, which represents a 23% increase in assets compared to the end of 2008, and the average value of individual assets management accounts increased by 25.9%. In the future, the Bank intends to maintain its efforts to enhance its selection and quality of services in order to raise customer satisfaction and increase growth in this promising segment.

### Custody Services

In spite of the harsh financial market conditions in the previous year, the Bank achieved excellent results in custody services. At the end of the year, the volume of assets in custody exceeded €5.6 billion, which is a 35% increase compared to the same period in 2008. The regional services established in 2008 were complemented by NLB's and the NLB Group's comprehensive custody service portfolio, both in custody services for financial instruments and in custody services for investment and pension funds. Although the net asset value of funds fell slightly at the beginning of the year, their value grew in the second half of the year. Furthermore, in 2009, the Bank's administrative services for investment funds, for which it had received a license at the end of 2008, were well received. In 2010, further development of custody services, especially regarding quality and IT revamping, is to be expected.

## Corporate Finance

### Issuing Securities of NLB and for Other Issuers

In 2009, NLB issued a series of bonds, coded NLB25, with a nominal value of €12.5 million. NLB also organized the issue of bonds for Petrol d.d. in the total amount of €50.0 million, for the Italian issuer KB1909 in the total amount of €10.3 million, for the insurance company Zavarovalnica Triglav in the total amount of €30.0 million and for SID Bank in the total amount of €250.0 million. Furthermore, apart from issuing its own shares, in 2009, NLB was involved in the sale of new shares of the company Adria Airways d.d. and the French issuer Lafarge to employees in the subsidiary company in Slovenia, and also organized the issue of shares in the process of capital increase in the company Unior Zreče d.d.

### Acquisitions

In 2009, NLB acted as the intermediate in three acquisition offers. The value of these offers totaled €11.1 million. The value of realized purchases of these offers reached as much as €6.0 million. NLB not only acted as the acquisitions intermediate, but also as a consultant in organizing and implementing acquisitions.

### Borrowing in One's Own Name and for Another Person's Account

In 2009, together with the banks of the NLB Group and other Slovenian banks, NLB ensured financial resources for major Slovenian companies. The value of these approved syndicated loans and granted syndicated guarantees to residents of Slovenia amounted to €172.9 million. NLB also played the role of agent. Moreover, NLB together with other banks organized syndicated loans to non-resident companies in the total amount of €64.5 million. NLB also played the role of agent.

# More Than Just a Bank

I know why.

# NLB Corporate Governance

NLB, as the parent bank and in line with established business principles, provides corporate governance for the NLB Group by following fundamental doctrines of corporate administration and management as well as other standards that ensure effective business supervision.

## Management Board

The NLB Management Board leads, represents and acts on behalf of the bank, independently and on its own responsibility, as provided for by law and the provisions of the Statute of the Bank. In compliance with the Statute, the Supervisory Board can nominate and appoint three to six members (the president and five members) to the Management Board. The president and the members are appointed for a term of five years and can be reappointed, or removed before their term expires, in accord with the regulations and Statute of the Bank.

On January 31, 2009 the term of the President of the Management Board, Marjan Kramar, who had led the Bank since February 1, 2004, expired. As of February 1, 2009 Draško Veselinovič was appointed to take on Marjan Kramar's position. On April 20, 2009 Draško Veselinovič offered to resign; however, in agreement with the Bank's Supervisory Board, he exercised his office as President of the Management Board until September 30, 2009. Due to Draško Veselinovič's resignation, Božo Jašovič was appointed President of the Management Board on October 1, 2009.

On November 2, 2009 NLB's Supervisory Board concluded an agreement on early termination of the terms of office with three members of NLB's Management Board, whose terms of office were terminated early as of November 30, 2009 (i.e., Alojz Jamnik, Matej Narat, and Miran Vičič). All three kept appropriate positions within NLB.

Marko Jazbec and Robert Kleindienst were appointed as members of the Bank's Management Board as of December 1, 2009 for a term of five years. The members of the Supervisory Board, David Benedek and Claude Deroose, will continue their term. David Benedek's term will expire on July 14, 2014, and Claude Deroose's term will expire on July 15, 2012.

**Collective Decision-Making Bodies**

- The **NLB Credit Committee** determines credit ratings, sets debt ceilings and approves commercial banking investments. The committee's decisions are made in compliance with the NLB Book of Rules on Mandates and Authorizations. The Credit Committee meets once a week. At least three members of the Management Board need to be present. The president of the Credit Committee is a member of the Management Board responsible for corporate banking.The Committee constitutes a quorum when at least three Management Board members are present.
- The **Credit Committee for Natural Persons** decides on the approval of credits and other investment proposals, the conditions of which deviate from regular bank offers and exceed the business network's director's authorization determined by a Management Board decision. The Committee's decisions are made in line with the NLB Book of Rules on Mandates and Authorizations. The Credit Committee meets once a week. The president of the Committee is a member of the Management Board responsible for retail banking. The Committee constitutes a quorum when at least three members of the Committee are present, of which at least one must be a member of the Management Board.
- The **NLB Assets and Liabilities Committee** monitors conditions on financial markets and analyses the condition, changes and trends in the Bank's assets and liabilities. It also formulates resolutions to carry out the configuration of the balance sheet in line with business policies and that make possible the regular operation and implementation of planned objectives. Meetings are convened twice a month and at least three

Table 11:
**NLB d.d. Management Board**

| Name | Position | Important positions outside NLB d.d. |
|---|---|---|
| **Božo Jašovič** | President of the Management Board since October 1, 2009 | **Chairman of the Supervisory Board:**<br>Združenje Bank Slovenije (The Bank Assotiation of Slovenia) (since November 30, 2009) |
| **David Benedek** | Member of the Management Board since July 15, 2009 | **Member of the Supervisory Board:**<br>NLB InterFinanz AG, Zürich<br>LHB Internationale Handelsbank AG, Frankfurt<br>**Member of the Board of Directors:**<br>NLB Prishtina sh.a., Pristina |
| **Claude Deroose** | Member of the Management Board | **President of the Board of Directors:**<br>NLB InterFinanz AG, Zürich<br>**Member of the Supervisory Board:**<br>LHB Internationale Handelsbank AG, Frankfurt<br>NLB Banka Sofia, Sofia<br>Adria Bank AG, Vienna |
| **Marko Jazbec** | Member of the Management Board since December 1, 2009 | - |
| **Robert Kleindienst** | Member of the Management Board since December 1, 2009 | - |
| **In 2009 the Management of NLB d.d. also included:** | | |
| **Draško Veselinovič** | President of the Management Board since February 1, 2009 untill September 30, 2009 | **Member of the Supervisory Board:**<br>Krka d.d., Novo mesto<br>**Chairman of the Supervisory Board:**<br>ZBS Združenje bank Slovenije (The Bank Assotiation of Slovenia) (since March 19, 2009 untill November 30, 2009) |
| **Marjan Kramar** | President of the Management Board untill January 31, 2009 | **Chairman of the Supervisory Board:**<br>LHB Internationale Handelsbank AG, Frankfurt (untill January 31, 2009)<br>ZBS Združenje bank Slovenije (The Bank Assotiation of Slovenia) (untill March 19, 2009)<br>ETI d.d., Izlake |
| **Matej Narat** | Member of the Management Board untill November 30, 2009 | **President of the General Assembly:**<br>NLB Propria d.o.o., Ljubljana<br>**President of the Board of Directors:**<br>NLB Montenegrobanka a.d., Podgorica<br>**President of the Supervisory Board:**<br>NLB Tutunska banka a.d., Skopje<br>**Member of the Management Board:**<br>NLB banka, Belgrade<br>**Member of the Supervisory Board:**<br>Banka Celje d.d., Celje<br>Adria Bank AG, Vienna |
| **Alojz Jamnik** | Member of the Management Board untill November 30, 2009 | **Chairman of the Supervisory Board:**<br>Banka Celje d.d., Celje<br>NLB Leasing d.o.o., Ljubljana<br>Mladinska knjiga Založba d.d., Ljubljana<br>LHB Internationale Handelsbank AG, Frankfurt (untill February 1, 2009)<br>**President of the Board of Directors:**<br>NLB Prishtina sh.a., Pristina<br>**Member of the Supervisory Board:**<br>NLB Tutunska banka a.d., Skopje |
| **Miran Vičič** | Member of the Management Board untill November 30, 2009 | **Chairman of the Supervisory Board:**<br>Bankart d.o.o., Ljubljana<br>Skupna pokojninska družba d.d., Ljubljana<br>NLB Vita d.d., Ljubljana<br>**President of the Supervisory Board:**<br>NLB Tuzlanska banka d.d., Tuzla<br>NLB Razvojna banka a.d., Banja Luka |

Management Board members need to be present. The president of the Committee is a Management Board member in charge of financial markets. The Committee constitutes a quorum when the majority of the Committee members are present.

- The **NLB Group Assets and Liabilities Committee** monitors and discusses the business operations of the NLB Group members, of which NLB is the majority owner, as well as of all NLB Group members in leasing and factoring activities, and, to a narrower extent, of the remaining NLB Group members. Meetings are convened at least quarterly; however, usually every two months. At least two Management Board members need to be present. The Management Board's President is the president of the Committee. The Committee constitutes a quorum when the majority of its members are present.

**Decision-Making and Advisory Bodies of the Bank**

- The **NLB Cost Committee** is a decision-making and advisory body responsible for monitoring the allocation and approval of all NLB corporate costs.

**Advisory Bodies of the NLB Management Board**

- The **NLB Price Policy Committee** is the coordinating and consulting body in charge of proposing resolutions for commercial interest rates and tariffs that conform to the NLB business policy and goals.
- The **NLB Trading and Marketing Risk Committee** is the coordinating and consulting body of the Bank's management in charge of defining, adopting and supervising the implementation of policies and methodologies of the Bank in trading.

Table 12:
**Management Board Responsibilities by Areas of Activity on December 31, 2009**

| Area of appointment | Direct responsibility |
|---|---|
| NLB Group management | Božo Jašovič |
| General secretary | Božo Jašovič |
| Internal audit | Božo Jašovič |
| Legal and compliance department | Božo Jašovič |
| Economics and organization development management | Božo Jašovič |
| Financial markets | David Benedek |
| Cooperation with financial institutions and business coordination | David Benedek |
| IT | David Benedek |
| IT coordination and development plan | David Benedek |
| NLB Domžale area<br>– Large companies<br>– Branch network | Marko Jazbec<br>Robert Kleindienst |
| NLB Koroška area<br>– Large companies<br>– Branch network | Marko Jazbec<br>Robert Kleindienst |
| NLB Zasavje area<br>– Large companies<br>– Branch network | Marko Jazbec<br>Robert Kleindienst |
| Documentary opeartions | Robert Kleindienst |
| Retail banking | Robert Kleindienst |
| Corporate banking | Marko Jazbec |
| intensive care and recovery | Claude Deroose |
| Financial management | Claude Deroose |
| Risk management | Claude Deroose |
| Payment systems | Claude Deroose |
| Bank's back-up administration:<br>- Treasury and investment banking administration<br>- Corporate banking administration<br>- Retail banking administration | Claude Deroose |

Table 13:
**NLB d.d. Supervisory Board**[2]

| Name | Position | Important positions outside NLB d.d. |
|---|---|---|
| **Stanislava Zadravec Caprirolo** | Chairwoman of the Supervisory Board [3] | **General Director:**<br>Ministry of Finance of Republic of Slovenia, Treasury Directorate |
| **Marko Simoneti** | Chairman of the Supervisory Board [4] | **Member of the Supervisory Board:**<br>Luka Koper, d.d.<br>**Professor:**<br>University of Ljubljana, Faculty of Law |
| **Rasto Ovin** | Deputy Chairman of the Supervisory Board | **Institute Director:**<br>University of Maribor, Faculty of Economics and Business<br>**Member:**<br>A Fiscal Council of Republic of Slovenia |
| **Gregor Dolenc** | Member of the Supervisory Board | **Independent financial advisor** |
| **Boris Škapin** | Member of the Supervisory Board | **Independent financial advisor:**<br>Consulta, d.o.o. |
| **Stojan Petrič** | Member of the Supervisory Board | **President:**<br>Kolektor Group, vodenje in upravljanje družb, d.o.o., Idrija<br>**President of the Management Board:**<br>Comtrade GmbH, Klagenfurt<br>**President of the Supervisory Board:**<br>FMR, d.d.; Fond, d.d.<br>**Member of the Supervisory Board:**<br>Skupna pokojninska družba [5] |
| **Andrej Baričič** | Member of the Supervisory Board | **President of the Management Board:**<br>Gea College, d.d.<br>**Institution board member:**<br>University Medical Center, Ljubljana; Prežihov Voranc Primary School, Ljubljana<br>**Director:**<br>Gea College PIC, d.o.o.; Gea College CVŠ, d.o.o.; Globe Ljubljana, d.o.o.; Glabo, d.o.o.; Gea College Visoka šola za podjetništvo<br>**President:**<br>Conference of Independent Institutions of Higher Education in Slovenia |
| **Riet Docx** | Member of the Supervisory Board | **Chairwoman of the Supervisory Board:**<br>K&H Bank, Hungary<br>**Member of the Supervisory Board:**<br>CSOB Bank, Czech Republic; CSOB Bank, Slovakia; SD Worx<br>**Member of the Board of Directors:**<br>KBC Banka, Serbia |
| **Igor Masten** | Member of the Supervisory Board | **Assistant professor:**<br>University of Ljubljana, Faculty of Economics |
| **Jan Vanhevel** | Member of the Supervisory Board | **President of the Management Board:**<br>KBC Group<br>**President of the Executive Committee:**<br>KBC Group; KBC Bank<br>**Member of the Executive Committee:**<br>KBC Insurance<br>**Member of the Board of Directors:**<br>KBC Group; KBC Insurance; KBC Bank; FEBELFIN (Belgian Banking Federation); VOKA (Flanders' Chamber of Commerce and Industry)<br>**Member:**<br>IIEB (Institut International d'Etudes Bancaires) |
| **John Hollows** | Member of the Supervisory Board | **President of the Supervisory Board:**<br>CSOB Insurance; CSOB Bank; Warta, Poland; DZI (Insurance Plc, General Insurance Jsc, Health Insurance AD), Bulgaria; Absolut Bank, Russia;<br>**Member of the Supervisory Board:**<br>CSOB Bank, Czech Republic; Kredyt Bank, Poland; CIBank, Bulgaria; CSOB Investment Company, Czech Republic; CSOB Asset Management, Slovakia; CSOB d.s.s. (Pension Fund), Slovakia; CSOB PF Stabilita (Pension Fund), Czech Republic; CSOB PF Progress (Pension Fund), Czech Republic; CSOB Property Fund, Czech Republic<br>**Member of the Board of Directors:**<br>K&H Bank, Hungary |

[2] As of June 30, 2009.
[3] Because Stanislava Zadravec Caprirolo resigned, her term as Chairwoman and member of the NLB Supervisory Board expired as of November 16, 2009.
[4] Marko Simoneti became Chairman of the NLB Supervisory Board as of November 20, 2009.
[5] Resignation as of June 30, 2009.

- The **NLB Operating Risk Committee** is the coordinating and consulting body of the Management Board responsible for administrating and monitoring operational risks for NLB, as well as for transferring this methodology to the consolidated NLB Group members.
- The **College of the Bank** is the advisory and consulting body of the Management Board that acts as both a sounding board and gobetween for ideas and suggestions that fall within the decision-making authority of the Management Board.
- The **Strategic Conference of the NLB Group** jis a special body of the Management Board with a consulting nature. It is convened once a year. At the meeting, the NLB Group's strategic and business objectives for the coming year are discussed.
- The **Business Conference of the NLB Group** is convened once a year. At the meeting, the NLB Group's strategic and business objectives are discussed.

### The Supervisory Board

The NLB Supervisory Board tracks and supervises the management and the performance of the Bank. It operates in accordance with provisions of the laws regulating banks and companies, as well as the NLB Statute, which in article 24 defines its responsibilities. Unless otherwise stipulated in the Statute, the Supervisory Board constitutes a quorum when properly convened and when at least half of its members are present or represented, including the chairman or his deputy.

In line with the Statute, the Supervisory Board has 11 members appointed and discharged by the shareholders or Supervisory Board.

Until June 30, 2009 the Supervisory Board was composed of the following members: Igor Marinšek (president), Peter Ješovnik (vice-president), Katja Božič, Iztok Bricl, Riet Docx, John Hollows, Marko Rus, Darko Tisaj, and Jan Vanhevel.

Table 14:
**NLB d.d. Supervisory Board [6]**

| Name | Position | Important positions outside NLB d.d. |
|---|---|---|
| **Igor Marinšek** | Chairman of the Supervisory Board | **Articled Clerk:** Mohorko Law Firm |
| **Peter Ješovnik** | Deputy Chairman of the Supervisory Board | **Director:** Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments **Member of the Supervisory Board:** Gorenje d.d., Velenje **Member of the Management Board:** WAIPA (World Association of Investment Promotion Agencies) |
| **Katja Božič** | Member of the Supervisory Board | **General Director:** Ministry of Finance of Republic of Slovenia, Directorate for Financial Systems **Member of the Counc** Insurance Supervision Agency |
| **Darko Tisaj** | Member of the Supervisory Board | **Director and Owner:** ARGON d.o.o., Maribor |
| **Riet Docx** | Member of the Supervisory Board | See Table 13. |
| **Iztok Bricl** | Member of the Supervisory Board | **CEO:** Žito d.d., Ljubljana |
| **Marko Rus** | Member of the Supervisory Board | **CEO:** A&C RUS Consulenza, srl, Torino; ARCHI.CON.DES Inventions UK Ltd, London **Director:** A&C Rus Nepremičnine d.o.o., Ljubljana |
| **Jan Vanhevel** | Member of the Supervisory Board | See Table 13. |
| **Anne Fossemalle [7]** | Member of the Supervisory Board | **Director:** Capital investments in banks, EBRD, London **Member of the Supervisory Board:** BRD, Romania; PBZ, Croatia |
| **John Hollows** | Member of the Supervisory Board | See Table 13. |

[6] Until June 29, 2009.
[7] Anne Fossemalle resigned as of August 7, 2008.

The new Supervisory Board was appointed at the shareholders' meeting on June 30, 2009 for a term that ends four years after their appointment, following the NLB General Meeting of Shareholders and their approval of the annual report. After Stanislava Zadravec Caprirolo resigned, Marko Simoneti was appointed as President of the Supervisory Board.

### Responsibilities of the Supervisory Board

The responsibilities of the Supervisory Board are:
- To review and supervise the management and operations of the Bank and, in cases of proven misconduct, to propose solutions;
- To review the reports of the Management Board and supervise its leadership of the Group, and in cases of proven misconduct, propose measures to rectify the problem;
- To report the results of its findings about the Bank's performance to shareholder meetings whenever necessary, or at a minimum, when the annual report is released, as well as to approve measures to improve the Bank's performance;
- To discuss the internal auditor's reports and its revisions and, based on these reports, to propose adoption of direct corrective measures;
- To approve the adoption of the general acts of the Bank as determined by Statute, except for acts that require approval by the General Meeting, or the acts based on laws or officially passed resolutions of the General Meeting;
- To approve those decisions of the Management Board as required by legal provisions or by the Statute;
- To prepare proposals for the General Meeting and carry out the tasks defined by the General Meeting, unless regulations require otherwise;
- To examine and approve the annual report and proposals for the use of the total profit recognized in the balance sheet, as well as to prepare a written report about the results of these investigations for the General Meeting;
- To decide to adopt the strategy, annual financial plan and business plan of the Bank;
- To discuss and review reports on the performance of the Bank throughout the year;
- To establish credit and guarantee limits, as well as all other limits for the Bank's operations;
- To approve all activities that involve changes in the status of corporations or companies where the Bank has majority interest;
- To determine ceilings for long-term indebtedness;
- To appoint members of the Management Board;
- To adopt the Rule Book for its work;
- To define the criteria for compensating the Management Board and to continuously review their fulfillment;
- To conclude contracts with the Bank's Management Board members, whereas the Bank is obliged to disclose the data on individual remuneration of the Management Board and Supervisory Board members in the Bank's annual report, including notes to the criteria under the preceding indent;
- To approve those changes in the wording of the Statute, that in compliance with the Statute require legal approval by the General Meeting or by the Management Board.

Table 15:
**Ten Largest NLB Shareholders as of December 31, 2009**

| | Name of shareholder | Number of shares | Share (in %) |
|---|---|---|---|
| 1 | Republic of Slovenia | 2,947,758 | 33.10 |
| 2 | KBC Bank NV | 2,722,634 | 30.57 |
| 3 | Poteza Naložbe, d.o.o. | 516,560 | 5.80 |
| 4 | Slovenska odškodninska družba, d.d. | 449,949 | 5.05 |
| 5 | Kapitalska družba, d.d. | 445,749 | 5.01 |
| 6 | Zavarovalnica Triglav, d.d. | 280,312 | 3.15 |
| 7 | NFD 1 Delniški investicijski sklad, d.d. | 172,501 | 1.94 |
| 8 | UniCredit Banka Slovenija, d.d. | 153,461 | 1.72 |
| 9 | Delniški vzajemni sklad Triglav steber I | 108,333 | 1.22 |
| 10 | UniCredit Bank Austria AG | 67,375 | 0.75 |
| | **10 major shareholders - total** | **7,864,632** | **88.31** |
| | Other shareholders | 1,041,320 | 11.69 |
| | **Total shareholders (1.998 shareholders)** | **8,905,952** | **100.00** |

### Commissions of the Bank's Supervisory Board

- The **Strategy and Development Commission** oversees the Bank's strategic objectives and development, and also drafts proposals concerning Supervisory Board decisions, especially by discussing, reviewing, and assessing the entire medium-term or long-term strategic plan of NLB and the NLB Group, as well as more important elements of the Bank's strategic and development plan. It analyses the adequacy of NLB's and the NLB Group's organization and corporate management, discusses sales and purchases of business shares in the NLB Group from a strategic viewpoint, and discusses the annual financial and business plans of NLB and the NLB Group on the basis of the adopted medium-term/long-term strategy and development. The Strategy and Development Commission comprises the following members: Rasto Ovin, president; Gregor Dolenc, member; John Hollows, member; Marko Simoneti, member; and Boris Škapin, member.
- The **Audit Commission** monitors and prepares draft proposals for Supervisory Board decisions concerning internal audits and legal compliance of the Bank's business operations for external and internal audit reports; it evaluates auditing procedures, evaluates and adopts recommendations or decisions in connection with the documents of external regulators, assesses internal control, and evaluates and recommends computer standards and policies to be applied in the Bank. The Audit Commission comprises the following members: Andrej Baričič, president; Riet Docx, member; John Hollows, member; Stojan Petrič, member; and Sergeja Slapničar, external independent member.
- The **Risks Commission** monitors and prepares draft proposals for Supervisory Board decisions concerning all areas of risk relevant to the Bank's business operations. The Risks Commission comprises the following members: Igor Masten, president; Riet Docx, member; Andrej Baričič, member; Stojan Petrič, member; and Boris Škapin, member.
- The **Remuneration and Appointment Commission** oversees basic strategic questions and prepares draft proposals for Supervisory Board decisions concerning the appointment and dismissal of Management Board members, determines the manner 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 determines remuneration criteria. The Remuneration and Appointment Commission comprises the following members: Marko Simoneti, president; Boris Škapin, member; Gregor Dolenc, member; and John Hollows, member.

### General Meeting of NLB Shareholders

The General Meeting of NLB Shareholders meets and decides at either regularly scheduled or extraordinary meetings to adopt resolutions in compliance with the law and the provisions of the Bank's statute. The responsibilities of the General Meeting of NLB Shareholders are stipulated by the Companies Act and the Banking Act, as well as the NLB Statute. It mainly decides on and adopts:

– The Bank's statute or amendments to the statute;
– The Rules Book on the work of the General Meeting of NLB Shareholders,
– The annual report if not accepted by the NLB Supervisory Board or if the Management Board and the Supervisory Board leave the decision on the adoption of the annual report to the General Meeting;
– The use of the balance profit;
– The discharge of the Management Board and the Supervisory Board;
– Changes of the Bank's basic capital;
– Annual limits and characteristics of the issue of securities, changeable in shares, and equity shares of the Bank;
– The appointment and dismissal of Supervisory Board members;
– The remuneration of Supervisory Board members, and profit participation of Supervisory Board and Management Board members as well as of Bank employees;
– The organization that will carry out the audit of the Bank's financial statements; and
– Changes in the status, mergers, and discontinuation of the Bank.

In compliance with the law, shareholders have rights as holders of shares or capital shares in NLB's basic capital. Furthermore, the shareholders hold determined ownership and corporation (membership) rights. In particular, shareholders are entitled to share in the profits (dividends), to share in any surplus in the event of liquidation (bankruptcy assets), to vote in compliance with the number of shares, and to be informed. They exercise their rights by participating in the General Meeting and by requesting certain information from the management or supervisory bodies. "Qualified" shareholders hold special rights.

Representatives of the NLB shareholders held their General Meeting on June 30, 2009. A total of 90.14% of the shareholders were represented. The NLB Annual Report for the previous business year and the Supervisory Board's report were presented, and all proposed resolutions were adopted.The proposed distribution of profit was accepted as dividends in the amount of €0.33 per share. In addition, the proposal regarding amendments to NLB's Statute was accepted and the Supervisory Board members were elected. PricewaterhouseCoopers was appointed as NLB auditor for 2009.

NLB does not have any shareholders with special control rights.

NLB does not have limitation of voting rights. In compliance with the law, voting rights are attached to all NLB shares (except for possible treasury shares).

NLB's rules on the appointment and change of management or supervisory board members do not deviate from the legal rules. The General Meeting of NLB Shareholders is responsible for the election and dismissal of the members of the Supervisory Board, whereas the appointment and dismissal of NLB Management Board members falls within the competence of the Supervisory Board. Furthermore, the NLB rules on the adoption and amendment of the NLB Statute do not deviate from the rules stipulated by the Companies Act, meaning that the General Meeting of NLB Shareholders adopts and amends the Bank's Statute in compliance with the procedures stipulated by law.

The NLB Management Board was authorized by the General Meeting of June 30, 2009 to increase NLB's basic capital by a maximum amount of €37,163,879.15 (authorized capital) once or several times over a period of five years from entering the change in the Register of Companies.

The increase is subject to the Supervisory Board's consent; however, it does not need an additional resolution by the General Meeting. The authorized increased capital amount allows the issue of a total of 4,452,976 new ordinary or preference shares.

## NLB Group Corporate Governance

NLB, as the parent bank in the NLB Group, provides corporate governance for the NLB Group by following its own internal regulations and operating, in compliance with the laws of the Republic of Slovenia and the countries in which the NLB Group members operate.

On the basis of the Corporate Governance Policy of the NLB Group, NLB regulates the comprehensive administration and management of the Group as one of its essential business purposes, and defines the roles, competencies, and responsibilities of individual bodies and organizational units to ensure that they function cooperatively and harmoniously in their efforts to achieve the Bank's business objectives.

NLB constantly endeavors to supplement and improve the corporate-governance system of the NLB Group as a combination of the regulations of NLB and NLB Group members, and the principles of good business practice. NLB Group Corporate Governance is thus carried out:

- In accord with fundamental corporate rules and through the various agents of the NLB Group members:
  - by implementing managerial entitlements at the general meetings of NLB Group members;
  - by proposing NLB representatives to be nominated as members of supervisory boards;
  - by proposing executive appointments for the members of the NLB Group;
  - by the cooperative participation of NLB representatives in various committees and commissions of the NLB Group members.

- Through appropriate mechanisms for effectively monitoring operations, harmonizing business standards and distributing information within the Group:
  - by business area (or the "business line" principle) in accord with the principles for professional collaboration of activities within the NLB Group;
  - via the NLB Group Assets and Liabilities Committee, which adopts decisions concerning the business management of NLB Group members at the proposal of NLB specialist services;
  - by convening strategic conferences (all the NLB Group members discussing development priorities of the NLB Group);
  - by regional meetings at which all members of the NLB Group in that country gather to discuss, develop and coordinate the Group's priorities for their respective markets.

The NLB Internal Audit Center and external supervisors (Bank of Slovenia, external auditors) provide additional supervision of the NLB Group.

To oversee corporate governance within the Group, NLB established the following:

- The **NLB Group Corporate Governance Directorate** was established by the NLB Management Board in April 2009 as an upgrade to the NLB Group Management Center. In addition to established forms of corporate management, the Directorate also performs corporate management by individual areas and members. By performing the function of NLB Group corporate governance, the Directorate assures management and supervision of NLB Group members, harmonisation of the rules of operation of NLB Group members with NLB d.d. standards, preparation of individual members' plans, and monitors their implementation.

- The **NLB Group Assets and Liabilities Committee,** as an expert body, monitors and reviews the business operations of the NLB Group members, of which NLB is the majority owner, as well as of all NLB Group members in leasing and factoring activities, and, to a narrower extent, of other NLB Group members. The Committee monitors the conditions on the financial markets on which the NLB Group members operate and analyses the situation, changes, and trends in the members' asset and liabilities structure, and also drafts policies to enhance conformity with the structure of the NLB Group members' asset and liabilities structure, which comply with the NLB Group's strategy and its integrated "business line" and facilitate normal business operations of the members, as well as fulfilling the plans of the NLB Group.

The Committee mainly monitors and reviews the following:

- Conditions on the financial markets;
- Regulations concerning balance statement and capital management of the NLB Group members and NLB Group;
- The system of monitoring and managing of the asset and liabilities structure and exposure to market risks within individual NLB Group members;
- Business results;
- Management of non-credit risks in the business operations of NLB Group members;
- Exposure to credit risk; and
- Capital management of the NLB Group members and the NLB Group.

Resolutions by the Committee are final and are binding guidelines for NLB bank representatives in supervisory boards, the NLB Group Corporate Governance Directorate, and operators of individual "business lines" within NLB.

# Internal Audit

NLB Internal Audit Center operates as an independent, impartial and objective counseling group, using a systematic and professional approach to assess risk management, control systems and business administration. It helps the NLB Group implement its strategic goals and business objectives in accord with best banking practices.

The Internal Audit Center complies with the IFRS and the provisions of the Banking Act, the Auditing Ethics Code, and the Internal Auditing Principles Code. NLB received the external quality mark for operating in compliance with the rules of the auditing profession awarded by the Institute of Internal Auditors based in the US and the Slovenian Audit Institute. The Center's purpose, validity, method, and competencies and responsibilities are defined in the Internal Audit Charter. Guidelines for the Internal Audit Center's work are outlined in the Internal Audit Manual.The Internal Audit Center regularly reports to the Management Board, Supervisory Board, and its Audit Commission, and, if needed, to the external auditors. At the end of 2009, the Audit Center had 32 employees.

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

### The Internal Audit Activities

The main role of the of the Internal Audit Center is to give the Management Board, Audit Commission and Supervisory Board an impartial evaluation of the risk management system, expressly including an assessment of the competency of the risk management operations and the effectiveness of the internal control systems. A good control system is the key to the effective and efficient management of risk, and an integral component for successful administration of the Bank as well as an absolute necessity for achieving the Bank's business objectives. Its work includes planning the audit, establishing deficiencies, and providing quality recommendations for individual areas.

Planning the audit is based on an analysis of builtin and external risks in effect in individual operations across the whole of the organization. The greatest emphasis is on a system of internal controls and risk management that conforms to international practice provided by COSO (The Committee of Sponsoring Organizations of the Treadway Commission): that is, by the IC (Internal Control) and the ERM (Enterprise Risk Management) models. These two models establish internal auditing criteria for evaluating control systems and risk management.

In order to verify internal audits in branches of the business network and internal audit offices within NLB Group members, additional self-evaluation questionnaires are used (Control Self Assessment, CSA). If needed, the internal audit center within an NLB Group member also engages external experts to carry out internal audits.

In 2009, auditors of the Internal Audit Center carried out audits in all areas of the Bank's operations vulnerable to risk, and also audited or participated in the audits of other NLB Group members. The audits were carried out in credit, and in operational and non-credit risk management, and also included individual business and support functions of the Bank. Overall, the Internal Audit Center completed 76 regular and 9 extraordinary audits.

In 2009, the supervised implementation of auditing recommendations showed a decrease in open audit reports compared to the previous year. The Center's other activities involved coordinating the Bank of Slovenia's inspections and the work of external auditors, and consulting to improve business efficiency and internal development. The Center was also involved in the transfer of the Center's internal auditing methodologies and know-how to the other members of the NLB Group.

The Internal Audit Center is also in charge of selecting the external auditor for the NLB Group annual report, coordinating the external audit, implementing the recommendations of the external audit, and reporting to the Management and Supervisory Boards.

The Internal Audit Center also coordinates inspections by the Bank of Slovenia, supervises the implementation of the inspector's recommendations and reports to the Bank's Management and Supervisory Boards.

**Management and Supervision of NLB Group Members**

In line with the adopted NLB Group Management and Supervision Policy and the Harmonization Program, which define the principles of corporate governance and supervision within the Group, the Center has putting these principles into practice for several years. The other members of the Group have 12 internal auditing offices, employing 35 auditors, whose work is based on uniform overarching provisions (Internal Audit Charter for each individual NLB Group member), as well as uniform standards and work methodologies maintained and developed by the Center in order to meet highest internal auditing standards within the entire NLB Group.
The principles of corporate governance are carried out in a variety of ways:

- Implementation of uniform standards and work methodologies,
- Team reviews of internal audits of the NLB Group members,
- Reviewing the Internal Audits within the Group,
- Supervising internal audits within the Group
- Providing professional assistance to the supervisory committees of the NLB Group members,
- Reporting the operations of the Internal Audit Center to the NLB Group Management Board and the NLB Supervisory Board committees.

The following additionally contribute to the harmonized functioning of the NLB Group Internal Audits:

– Regular training courses and seminars for all NLB Group auditors,
– Sharing of professional expertise and knowhow,
– Coordinating and organizing training sessions for group training,
– Offering constant professional assistance for everyday work situations.

# Social Responsibility

## Human Resource Management

In 2009, the Bank adapted its human resource activities to the harsher market conditions and followed the NLB Group's fundamental strategic goals. The priority of the Bank's tasks applied to:

- Ensuring human resources with special attention to the internal labor market;
- Targeted staff advancement and professional training;
- Rewarding and motivating employees;
- Ensuring employees safe and healthy work;
- Harmonization of human resource functions within the NLB Group.

### Number of Employees

The number of employees at NLB and associated companies of the NLB Group amounted to 8,019; of these 3,698 or 46% were employed abroad.

At the end of the year, the entire NLB Group, including associated and joint venture companies, employed a total of 8,991 employees, with 3,817 working abroad. In comparison with the previous year, the number of employees decreased by 4.7%. The biggest decrease in the number of employees was at NLB Prishtina and NLB Banka, Beograd.

At the end of the year, NLB had 4,050 employees, which is 1.2% less than in 2008. The decrease in employees was due to a restrictive human resource policy.

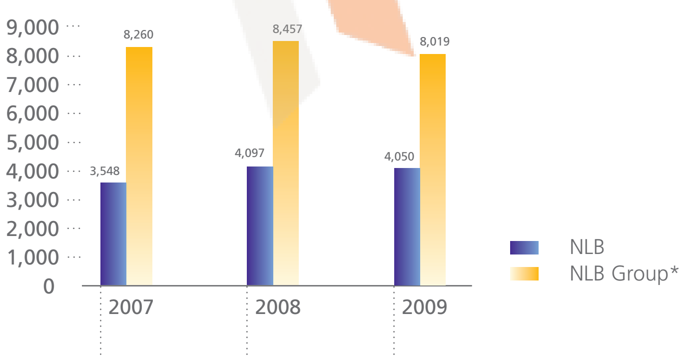
Employment from external markets was restricted and only exceptionally approved if the Bank did not have adequate staff at its disposal for redistribution. In the course of the year, 128 new employees, or 85 fewer than in 2008, were hired.

The Bank dismissed 175 employees, of which almost 40% were superfluous employees. Their work was redistributed among the remaining employees, thus increasing work optimization.

### Staff Development and Training

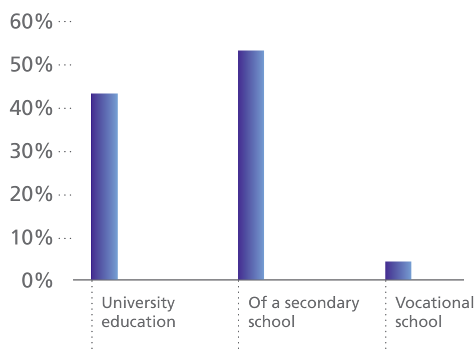
The Bank's staff development and training are planned via annual performance appraisals. As a priority, the Bank focused on the development and training of certain target groups (i.e., employees in

Illustration 13:
**Number of Employees in NLB and NLB Group**




*NLB and subsidiaries of NLB Group.

Illustration 14:
**Education Structure of NLB Employees in 2009**



a managerial capacity across all levels and high-potential staff). These include successors for managerial positions, high-potential staff, and key specialists. The Bank carried out the following for these target groups:

- Establishment of their development potential;
- Development appraisals;
- Planning of development activities and career paths, as well as establishment of management competencies through the 360° tool.

In 2009, 14,087 NLB employees and 373 NLB Group employees, who were trained by NLB, were included in a variety of educational and training formats carried out at NLB, in Slovenia, or abroad. Almost 96% or 3,863 NLB employees participated at least once in educational and training programs. On average, 3.4 days were dedicated to professional education and training. The Bank financed work-study programs and sabbaticals for 35 employees. A total of 159 employees (3.9% of all employees) concluded a contract on work-study programs and sabbaticals with the Bank.

**Rewarding and Motivating Employees**

In 2009, growing competition and decreasing economic growth largely influenced the Bank's awards policy. In spite of focusing on optimizing and economizing personnel costs, NLB provided for further development and training of its key staff. More emphasis was put on recognizing special achievement at work with special focus on the Bank's key employees. In addition to material forms of recognition, the Bank increasingly encourages awards.

**Employee Care**

In spite of tougher conditions, the Bank tried to keep its employee care programs at the same level as in previous years. NLB amended its Security and Risk Evaluation Declaration, which specifies new job groups and complements existing measures to prevent disease and health damages. Employees were offered regular physicals, as well as organized seasonal and pandemic flu vaccinations.

**Harmonization of Human Resource–Related Functions within the NLB Group**

The Bank has been harmonizing human resource–related functions for the past four years, which is done in compliance with the management policies of the NLB Group members. This is carried out within the framework of the "Organization and Human Resources" business line.

At annual meetings, the human resource officers of the NLB Group banks determine priority HR-objectives subject to harmonization during the current year. Fulfillment of these objectives is regularly reviewed. In 2009, the Bank mainly focused on:

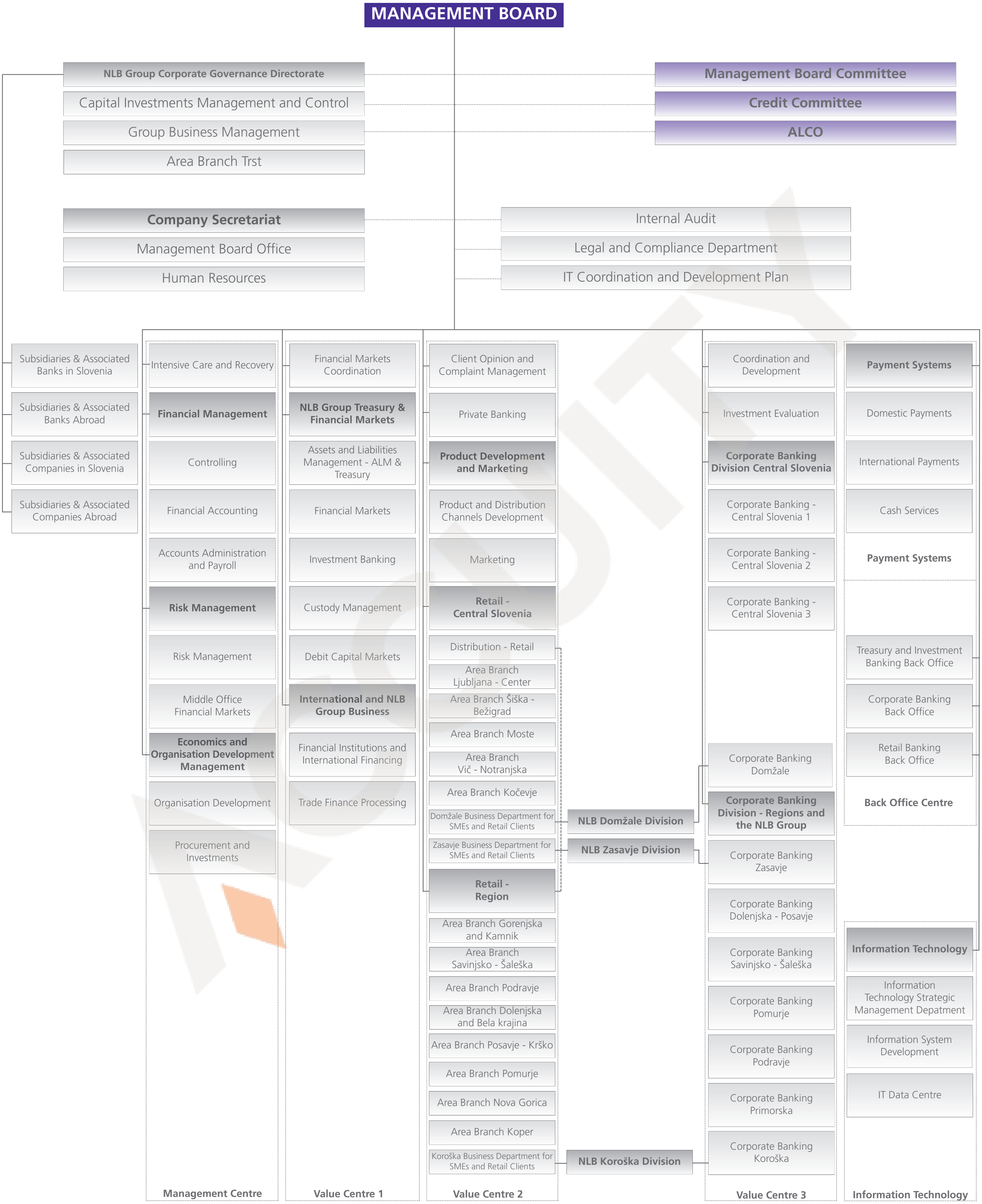
- Economizing personnel costs;
- Classification of jobs;
- Selection processes;
- Trainee programs;
- Annual appraisals, evaluation of work performance, and rewarding.

Regarding education and training, HR in cooperation with other lines of business organized the transfer of specific know-how (129 participants in total). According to the example of the Internal Bank School of the NLB Group, a test run of the "School for Managers of NLB Group Branch Offices" was organized in Serbia. Sixteen managers from banks of the NLB Group participated in this test run. On the basis of the test run, a training program was compiled, which will be one of the NLB Group's fundamental management trainee programs. Furthermore, individual members were offered advisory services and technical support regarding the introduction of the variable rewarding and annual appraisal system, as well as job classification and salary systems. Harmonization of the business operations of other business functions is also carried out by short-term and long-term assignments of NLB staff to NLB Group members. At the end of 2009, 47 employees employed at the NLB parent bank were moved to NLB Group members.

## Customers

NLB's focus on its customers and meeting the needs of various customer segments is also confirmed by various studies carried out by independent research agencies. According to most results, NLB is the best-known and most trusted bank in Slovenia. NLB was rated as the best and most socially responsible bank by approximately one-third of respondents. Furthermore, the population as well as companies attribute many other qualities to NLB that are important for selecting a bank in the first place: a widespread network of branch offices, tradition, power and stability, trustworthiness, a good, diverse, comprehensive, and high-quality portfolio of services, a bank

## NLB Organisational Structure on December 31, 2009



that fulfills its clients' needs, an internationally renowned bank, and so on.

NLB has been closely monitoring the most important parameters of customer satisfaction with the international company GfK Slovenia since 1999. The latest satisfaction indices (population and companies: 82; 100 = highest satisfaction) confirm that on average NLB's customers are content. In particular, above-average ratings were received for customer satisfaction with NLB staff, NLB's modern marketing channels, the varied service portfolio, and other aspects. Due to the stable satisfaction of NLB customers, the elimination of negative factors, and the reduction in complaints, despite less favorable market conditions, the Bank expects to maintain this position in the future.

## Society and Environment

NLB is an integral part of the environment in which it works. NLB identifies with local communities and is actively involved in community affairs through its funding activities and philanthropic donations. In 2009, the Bank sponsored over 700 projects that demonstrated its social consciousness.

### Sports

In 2009, for the fourth consecutive year, the NLB Group was the general sponsor of the regional basketball league, the NLB League. Competition began in 2001 and 14 clubs from Bosnia and Herzegovina, Croatia, Slovenia, Serbia and Montenegro participate. The NLB League brings together teams from countries that represent NLB Group's target markets. The NLB League and NLB Group also share something else that is bringing them success: ambitious goals, excellent results and consistent growth. In the European Year of Intercultural Dialogue the NLB League was given a special recognition by the European Union.

By supporting top athletes and teams representing Slovenia, the Bank makes an important contribution to the success of Slovenian sports in general. Among the Bank's major projects is its long-term role as golden sponsor and partner of the Slovenian Men and Women's Alpine Skiing Teams.

There is no recreation without sports. In recent years, interest in running and biking has increased dramatically in Slovenia. The NLB cooperates and works with recreational sports organizers throughout Slovenia. Many employees belong to teams that regularly participate in various competitions.

### Culture

As a result of its longstanding collaboration, the Bank has become an important partner of the Ljubljana Jazz Festival, which celebrated its 50th anniversary. Numerous other events and exhibitions accompany the festival.

Imago Sloveniae was founded in 1994 to enliven and reinvigorate old city centers. Cultural performances in old town centers highlight the beauty of ancient squares, castles, museums, churches and other treasures that represent the Slovenian cultural heritage. The Bank has supported this project since 2000. In 2009, 30 cities and towns participated in the program by hosting renowned national and international classical musicians, who performed at over 100 concerts during the summer.

NLB has cooperated with the Ljubljana Festival for more than 10 years. Ljubljana's summer events attract many of tourists. Without doubt, the Festival, featuring more than 70 concerts and events in two months, is one of the most important events in Slovenia's capital.

Every large Slovenian town presents numerous cultural events, and NLB is involved in nearly every event where it operates. In 2009, the Bank sponsored over 60 cultural events, organizations, and institutions.

For decades, the Bank has been assembling its own **Art Collection** with the aim of preserving Slovenian cultural identity. The long-term goal of the Bank is to build one of the most representative collections of prominent Slovenian artists of the twentieth and twenty-first centuries. An expert commission expands the collection every year by recommending key additions. Thus, we believe that our collection is a good investment in art, as well as Slovenian culture, which, in times of globalization, is of even greater importance to the Slovenian nation. By purchasing artworks by renowned artists, the Bank supports the development and promotion of Slovenian art. Moreover, as the NLB Group expands into foreign markets, it will also progressively expand its collection to include the works of artists from these regions.

Many of these works, which the Bank has had for decades, as well as pieces it acquired in past years represent top-quality Slovenian art. We are proud that experts show great interest in the works in our collection, thereby confirming that it includes truly important artworks by Slovenian artists. Thus, the Bank along with museums and galleries significantly shapes the national art collection and contributes to preserving Slovenia's cultural heritage. In the NLB Gallery Hall, which has a tradition of 39 years, the Bank continues to feature creators and trends in visual communication from Slovenia, Europe, and America selected by the Emzin Institute of Creative Production for the tenth consecutive year.

**Charities**

NLB cooperates with over 200 different charitable organizations in all the regions where it operates. Among the largest and most longstanding are Karitas, Slovenian Red Cross, and UNICEF Slovenia. Every year the NLB also makes donations to purchase equipment for many hospitals. All branch offices have collection boxes. Clients make voluntary donations for humanitarian campaigns in their area. NLB supported the Slovenian Red Cross in carrying out a blood drive with over 100,000 participating each year, thus showing their solidarity. In lieu of cards and gifts to customers at the end of the year, the NLB Group made donations to all pediatric wards of regional hospitals in Slovenia to improve medical treatment, and children in hospitals were treated to a visit from Red Nose Comic Relief doctors.

**Environmental Conduct and Awareness**

Environmental responsibility and conduct are factors that can no longer be ignored. Employees of the NLB Group are aware of their responsibility towards our planet, all people, animals, plants, and all of the Earth's natural resources. Therefore the NLB Group's employees respect and implement all policies and measures intended to decrease harmful effects on the environment. Environmental protection measures, however, must not contradict the Bank's business interests.

In compliance with the aforementioned, in 2009 the Bank:
– Continued to automatically switch off PCs at night;
– Introduced the green message: "I think before I print. I know why!" on Earth Day (April 22) 2009;
– As of April 20, 2009 discontinued the automatic attachment of e-business cards, thus relieving mail servers;
– In cooperation with Telekom Slovenia, introduced e-invoices for legal entities (instead of paper payment orders; as of this year legal entities can send payment orders as e-invoices via e-banking);
– Introduced waste separation (glass and packaging) in the NLB Group, Prospera Plus company;
– In June 2009, was named "Green Office 2009" by Planet GV.

# 2 Financial Statements

# Audited Consolidated Financial Statements for the NLB Group

**under International Financial Reporting Standards as adopted by the European Union**

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers d.o.o.**
Cesta v Kleče 15,
SI-1000 Ljubljana, Slovenia
Telephone: +386 1 5836 000
Facsimile: +386 1 5836 099
Matriculation No.: 5717159
VAT No.: SI35498161

**Independent auditor's report**

**To the Shareholders of Nova Ljubljanska banka d.d.**

**Report on the Financial Statements**

We have audited the accompanying parent company financial statements of Nova Ljubljanska banka d.d. (the 'Bank') which comprise the statement of financial position as of 31 December 2009 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank standing alone as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Act.

**Report on Other Legal and Regulatory Requirements**

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

In our opinion, the Directors' Report is consistent with the accompanying financial statements of the Bank as of 31 December 2009.

PRICEWATERHOUSECOOPERS d.o.o.
1

Ljubljana, March 19, 2010

PricewaterhouseCoopers d.o.o.

Leon Živec

Certified Auditor

Francois Mattelaer

Partner

# Index

## Consolidated income statement

| In thousand of euros | Notes | 2009 | 2008 |
|---|---|---|---|
| Interest and similar income | 5.1. | 934,667 | 1,187,537 |
| Interest and similar expense | 5.1. | (511,500) | (711,507) |
| **Net interest income** | | **423,167** | **476,030** |
| Dividend income | 5.2. | 2,127 | 2,926 |
| Fee and commission income | 5.3. | 197,207 | 203,089 |
| Fee and commission expense | 5.3. | (39,839) | (36,778) |
| **Net fee and commission income** | | **157,368** | **166,311** |
| Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss | 5.4. | 4,782 | 16,132 |
| Gains less losses from financial assets and liabilities held for trading | 5.5. | 16,488 | (64,021) |
| Gains/(losses) from financial assets and liabilities designated at fair value through profit or loss | | 5,444 | (42) |
| Fair value adjustments in hedge accounting | 6.5. | 128 | 914 |
| Foreign exchange translation gains less losses | 5.5. | (6,249) | 35,359 |
| Gains less losses on derecognition of assets other than held for sale | | (390) | (4,210) |
| Other operating income | 5.6. | 46,600 | 42,670 |
| Other operating expenses | 5.7. | (7,034) | (7,652) |
| Administrative expenses | 5.8. | (354,837) | (360,059) |
| Depreciation and amortization | 5.9. | (62,789) | (63,160) |
| Provisions for other liabilities and charges | 5.10. | 786 | 7,610 |
| Impairment charge | 5.11. | (316,271) | (219,061) |
| Share of profits of associated companies and joint ventures accounted for using the equity method | 6.14. | 6,219 | 8,019 |
| Net (loss)/profit from non-current assets held for sale | | (1,432) | 427 |
| **(LOSS)/PROFIT BEFORE INCOME TAX** | | **(85,893)** | **38,193** |
| Income tax expense | 5.12. | (20) | (15,358) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(85,913)** | **22,835** |
| Attributable to: | | | |
| Owners of the parent | | (86,762) | 20,519 |
| Non-controlling interests | | 849 | 2,316 |
| | | **(85,913)** | **22,835** |
| Basic and diluted (loss)/earnings per share (in euros per share) | 5.13. | (9.8) | 2.4 |

The notes are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

| In thousand of euros | Notes | 2009 | 2008 |
|---|---|---|---|
| **Net (loss)/profit for the period after tax** | | **(85,913)** | **22,835** |
| **Other comprehensive income/(loss) after tax** | | **30,940** | **(41,907)** |
| **Foreign currency translation** | | **(982)** | **945** |
| Translation (losses)/gains taken to equity | | (982) | 945 |
| **Cash flow hedges (effective portion)** | | **(830)** | **(5,157)** |
| Valuation losses taken to equity | | (4,721) | (4,273) |
| Transferred to profit | | 3,891 | (884) |
| **Available for sale financial assets** | | **30,157** | **(25,607)** |
| Valuation gains/(losses) taken to equity | | 31,024 | (81,353) |
| Transferred to profit | 5.4. and 5.11. | (867) | 55,746 |
| **Share of other comprehensive income/(loss) of entities accounted for using the equity method** | | **5,390** | **(20,316)** |
| **Income tax relating to components of other comprehensive income** | 6.22. | **(2,795)** | **8,228** |
| **Total comprehensive loss for the period after tax** | | **(54,973)** | **(19,072)** |
| Attributable to owners of the parent | | (56,003) | (21,816) |
| Attributable to non-controlling interests | | 1,030 | 2,744 |

The notes are an integral part of these consolidated financial statements.

## Consolidated statement of financial position

| In thousand of euros | Notes | 31.12.2009 | 31.12.2008 |
|---|---|---|---|
| Cash and balances with Central Banks | 6.1. | 996,264 | 830,892 |
| Trading assets | 6.2. | 358,518 | 475,342 |
| Financial assets designated at fair value through profit or loss | 6.3. | 29,797 | 2,473 |
| Available for sale financial assets | 6.4.a) | 2,862,571 | 1,762,425 |
| Derivatives - hedge accounting | 6.5. | 28,703 | 8,095 |
| Loans and advances to banks | 6.7. | 1,525,317 | 1,096,961 |
| Loans and advances to customers | 6.8. | 12,332,918 | 12,916,930 |
| Held to maturity investments | 6.9. | 579,490 | 590,662 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 500 | - |
| Non-current assets held for sale | 6.10. | 28,662 | 13,760 |
| Pledged assets | 6.18.c) | - | 400,682 |
| Property and equipment | 6.11. | 367,787 | 396,163 |
| Investment property | 6.12. | 26,112 | 22,241 |
| Intangible assets | 6.13. | 167,821 | 189,974 |
| Investments in associated companies and joint ventures | 6.14. | 110,520 | 105,279 |
| Current income tax assets | | 21,403 | 5,206 |
| Deferred income tax assets | 6.21. | 31,950 | 27,058 |
| Other assets | 6.15. | 137,224 | 74,041 |
| **TOTAL ASSETS** | | **19,605,557** | **18,918,184** |
| | | | |
| Deposits and borrowings from Central Banks | | 802,036 | 201,314 |
| Trading liabilities | 6.17. | 58,358 | 68,224 |
| Derivatives - hedge accounting | 6.5. | 32,916 | 10,048 |
| Deposits from banks | 6.18.a) | 366,257 | 564,111 |
| Borrowings from banks | 6.18.b) | 3,350,688 | 5,166,226 |
| Due to customers | 6.18.a) | 10,741,248 | 9,464,809 |
| Borrowings from other customers | 6.18.b) | 140,543 | 82,311 |
| Debt securities in issue | 6.18.d) | 1,780,047 | 493,651 |
| Subordinated liabilities | 6.19. | 833,600 | 886,658 |
| Financial liabilities associated to transferred assets | 6.18.c) | - | 400,518 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 26 | - |
| Provisions | 6.20. | 89,481 | 92,439 |
| Current income tax liabilities | | 1,902 | 15,702 |
| Deferred income tax liabilities | 6.21. | 1,039 | 2,658 |
| Other liabilities | 6.23. | 163,220 | 133,142 |
| **TOTAL LIABILITIES** | | **18,361,361** | **17,581,811** |
| | | | |
| **CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital | 6.24. | 74,328 | 74,328 |
| Share premium | 6.25. | 495,595 | 495,595 |
| Revaluation reserve | | 1,966 | (28,793) |
| Profit reserves | | 595,485 | 579,164 |
| Retained earnings (including net profit for the year) | | 53,101 | 156,327 |
| Treasury shares | | (2,048) | (2,048) |
| | | **1,218,427** | **1,274,573** |
| | | | |
| Non-controlling interests | | 25,769 | 61,800 |
| **TOTAL EQUITY** | | **1,244,196** | **1,336,373** |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | | **19,605,557** | **18,918,184** |

The notes are an integral part of these consolidated financial statements.

The Management Board authorized for issue the consolidated financial statements and notes to the consolidated financial statements.

**Robert Kleindienst**
Member of the
Management Board

**Marko Jazbec**
Member of the
Management Board

**Claude Deroose**
Member of the
Management Board

**David Benedek**
Member of the
Management Board

**Božo Jašovič**
Member of the
Management Board &CEO

Ljubljana, 19 March 2010

## Consolidated statement of changes in equity

In thousand of euros

| | Share capital | Share premium | Revaluation reserves | Profit reserves | Retained earnings | Treasury shares | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2009** | **74,328** | **495,595** | **(28,793)** | **579,164** | **156,327** | **(2,048)** | **1,274,573** | **61,800** | **1,336,373** |
| Total comprehensive income | - | - | 30,759 | - | (86,762) | - | (56,003) | 1,030 | **(54,973)** |
| Dividends paid | - | - | - | - | (2,927) | - | (2,927) | (1,533) | **(4,460)** |
| Allocation of net profit from previous year | - | - | - | 46,448 | (46,448) | - | - | - | **-** |
| Appropriation to profit reserves | - | - | - | (23,621) | 23,621 | - | - | - | **-** |
| Transactions with non-controlling interest | - | - | - | - | 8,491 | - | 8,491 | (35,452) | **(26,961)** |
| Other * | - | - | - | (6,506) | 799 | - | (5,707) | (76) | **(5,783)** |
| **Balance at 31 December 2009** | **74,328** | **495,595** | **1,966** | **595,485** | **53,101** | **(2,048)** | **1,218,427** | **25,769** | **1,244,196** |

* Other relates to exchange differences.

In thousand of euros

| | Share capital | Share premium | Revaluation reserves | Profit reserves | Retained earnings | Treasury shares | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2008** | **66,831** | **203,236** | **13,542** | **565,303** | **194,584** | **(2,048)** | **1,041,448** | **81,965** | **1,123,413** |
| Total comprehensive income | - | - | (42,335) | - | 20,519 | - | (21,816) | 2,744 | **(19,072)** |
| New share capital subscribed | 7,497 | 292,359 | - | - | - | - | 299,856 | - | **299,856** |
| Dividends paid | - | - | - | - | (47,469) | - | (47,469) | (2,414) | **(49,883)** |
| Allocation of net profit from previous year | - | - | - | 14,633 | (14,633) | - | - | - | **-** |
| Transactions with non-controlling interest | - | - | - | - | 6,285 | - | 6,285 | (20,221) | **(13,936)** |
| Other * | - | - | - | (772) | (2,959) | - | (3,731) | (274) | **(4,005)** |
| **Balance at 31 December 2008** | **74,328** | **495,595** | **(28,793)** | **579,164** | **156,327** | **(2,048)** | **1,274,573** | **61,800** | **1,336,373** |

* Other relates to exchange differences.

The notes are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest received | 915,511 | 1,196,789 |
| Interest paid | (493,753) | (720,460) |
| Dividends received | 7,276 | 7,798 |
| Fee and commission receipts | 195,721 | 208,941 |
| Fee and commission payments | (39,768) | (38,337) |
| Realized gains from financial assets and financial liabilities not at fair value through profit or loss | 4,796 | 16,328 |
| Realized losses from financial assets and financial liabilities not at fair value through profit or loss | (14) | (196) |
| Losses from financial assets and liabilities held for trading | (15,149) | (15,774) |
| Payments to employees and suppliers | (358,618) | (366,931) |
| Other income | 43,659 | 51,161 |
| Other expenses | (834) | (11,312) |
| Income tax paid | (34,926) | (21,558) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | **223,901** | **306,449** |
| **Increases in operating assets** | **(618,961)** | **(876,562)** |
| Net (increase)/decrease in financial assets at Central Banks | (4,139) | 19,760 |
| Net decrease in trading assets | 58,113 | 38,164 |
| Net increase in financial assets designated at fair value through profit or loss | - | (1,500) |
| Net increase in available for sale financial assets | (497,531) | (2,101) |
| Net increase in loans and advances | (133,487) | (946,493) |
| Net (increase)/decrease in non-current assets held for sale | (1,798) | 31 |
| Net (increase)/decrease in other assets | (40,119) | 15,577 |
| **Increases in operating liabilities** | **831,287** | **354,704** |
| Net increase in deposits from Central Banks | 601,973 | 201,214 |
| Net (decrease)/increase in deposits and loans measured at amortized cost | (1,065,561) | 123,419 |
| Net increase in securities measured at amortized cost | 1,314,000 | 59,745 |
| Net decrease in other liabilities | (19,125) | (29,674) |
| **Net cash used in operating activities** | **436,227** | **(215,409)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| **Receipts from investing activities** | **80,346** | **92,275** |
| Proceeds from sale of property and equipment and investment property | 14,644 | 11,686 |
| Redemption of held to maturity investments | 65,702 | 80,589 |
| **Payments from investing activities** | **(146,616)** | **(327,961)** |
| Purchase of property and equipment and investment property | (48,461) | (88,864) |
| Purchase of intangible assets | (15,407) | (20,907) |
| Purchase of non-controlling interest | (27,821) | (14,279) |
| Purchase of associated companies and joint ventures | - | (14,592) |
| Purchase of held to maturity investments | (54,927) | (189,319) |
| **Net cash flows used in investing activities** | **(66,270)** | **(235,686)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| **Proceeds from financing activities** | **490** | **317,169** |
| Issue of subordinated debt | - | 16,222 |
| Issue of ordinary shares | - | 300,000 |
| Other proceeds related to financing activities | 490 | 947 |
| **Payments from financing activities** | **(54,475)** | **(67,388)** |
| Dividends paid | (4,475) | (50,243) |
| Repayments of subordinated debt | (50,000) | (17,000) |
| Other payments related to financing activities | - | (145) |
| **Net cash from financing activities** | **(53,985)** | **249,781** |
| Effects of exchange rate changes on cash and cash equivalents | (6,024) | (984) |
| **Net increase/(decrease) in cash and cash equivalents** | **315,972** | **(201,314)** |
| **Cash and cash equivalents at beginning of year** | **1,184,922** | **1,387,220** |
| **Cash and cash equivalents at end of year** | **1,494,870** | **1,184,922** |

The notes are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

| In thousand of euros | Note | 2009 | 2008 |
|---|---|---|---|
| **Cash and cash equivalents comprise:** | | | |
| Cash and balances with Central Banks | 6.1. | 542,218 | 381,278 |
| Loans and advances to banks maturing within 3 months | 6.7. | 892,882 | 685,298 |
| Trading assets maturing within 3 months | 6.2. | 2,187 | 7,137 |
| Available for sale financial assets maturing within 3 months | 6.4. | 57,583 | 111,209 |
| **TOTAL** | | **1,494,870** | **1,184,922** |

Loans and securities included within cash and cash equivalents have the original maturity up to 90 days (see note 2.20.).

# Statement of management's responsibilities

The Management Board herewith confirms the consolidated financial statements for the year ended 31 December 2009 and the accompanying accounting policies and notes to the accounting policies.

The Management Board is responsible for the preparation of the annual report in a way as to be a true and fair representation of the Group's assets and the results of its operations for the year ended 31 December 2009.

The Management Board additionally confirms that the appropriate accounting policies were consistently used and that the accounting estimates were prepared according to the principles of precaution and good management. The Management Board furthermore confirms that the consolidated financial statements together with the notes have been prepared on the basis of the assumption of continued operations of the Group and in line with the valid legislation and the International Financial Reporting Standards, as adopted by the EU.

The Management Board is also responsible for appropriate accounting practice, for the adoption of appropriate measures for the insurance of property and for the prevention and identification of fraud and other irregularities or unlawfulness.

The tax authorities may at any time within 5 years from the day of the tax charge verify the operations of the company, which in turn may cause the obligation of an additional tax payment, default interest payment and penalty from Corporate Income Tax or other taxes or duties. The Management Board is not aware of any circumstances, which could result in any such potentially significant obligation.

**Management Board**

| | | | | |
|---|---|---|---|---|
| **Robert Kleindienst**<br>Member of the<br>Management Board | **Marko Jazbec**<br>Member of the<br>Management Board | **Claude Deroose**<br>Member of the<br>Management Board | **David Benedek**<br>Member of the<br>Management Board | **Božo Jašovič**<br>Member of the<br>Management Board &CEO |

# Notes to the consolidated financial statements

## 1. GENERAL INFORMATION

Nova Ljubljanska banka d.d. Ljubljana ("the Bank" or "NLB") is incorporated in Slovenia as a joint stock company providing universal banking services. The largest shareholders of Nova Ljubljanska banka d.d. are the Republic of Slovenia, owning 33.10% of the shares, and KBC Bank N.V., Brussels ("KBC Bank"), owning 30.57% of the shares.

The address of its registered office is: Nova Ljubljanska banka d.d., Ljubljana, Trg republike 2, Ljubljana.

The NLB Group ("Group") includes NLB d.d. and subsidiaries from over 12 countries.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the consolidated financial statements are set out below:

### 2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Separate parent company financial statements have been prepared in accordance with IFRS in addition to consolidated financial statements according to the requirements of local legislation.

### 2.2. Basis of presentation of consolidated financial statements

The consolidated financial statements of the Group have been prepared under the historical cost convention as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities at fair value through profit or loss, including all derivative contracts and investment property.

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised. Critical accounting estimates are disclosed in note 2.30.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

### 2.3. Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has the power to exercise control over the operations, have been fully consolidated, except SIB Banka. SIB Banka is in the process of liquidation and the major part of its assets and liabilities were transferred to NLB. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Disclosure of non-controlling interest is made in the consolidated statement of changes in equity.

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

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the 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 disposals to non-controlling interests are also recorded in equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity.

The Group's subsidiaries are presented in note 8.3.

### 2.4. Associated undertakings

Investments in associated undertakings are accounted for using the equity method of accounting. These are undertakings where the Group generally has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

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

The Group's principal associated undertakings are presented in note 6.14.

### 2.5. Jointly controlled companies

Jointly controlled companies are those enterprises over whose activities the Group has joint control, established by contractual agreement. Investments in jointly controlled companies are accounted for using the equity method of accounting.

### 2.6. Goodwill and excess of acquirer`s interest

On acquisition of a subsidiary, associated or jointly controlled companies, the Group calculates the difference between its share in the fair value of the assets and liabilities acquired and the fair value of the consideration given. Where the consideration given exceeds the net assets acquired, goodwill arises. Goodwill is tested for impairment semi-annually.

Where the Group's share of identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition, a reassessment is made of the completeness of identification and measurement, and any remaining excess ("negative goodwill") is recognized immediately in the income statement.

### 2.7. Foreign currency translation

#### Functional and presentation currency

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

#### Transactions and balances

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

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

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 in the revaluation reserve in other comprehensive income.

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.

#### Group companies

The results and financial position of all the 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 date of the statement of financial position,
- income and expenses for each income statement are translated at average exchange rates,
- all resulting exchange differences are recognized as a separate component of equity.

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

On consolidation exchange differences arising from the translation of the net investment in foreign operations are taken to shareholder's equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognized in the income statement as part of gain or loss on sale.

### 2.8. Interest income and expense

Interest income and expense are recognized in the income statement for all interest-bearing instruments on an accruals basis using the effective yield method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed income investment and trading securities, accrued discounts and premiums on securities and interest from interest rate swaps. The calculation of effective interest rate includes all fees and points paid or received between parties to the contract and all transaction costs but does not consider future credit losses. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expenses from all financial assets and liabilities are disclosed as part of net interest income.

### 2.9. Fee and commission

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

### 2.10. Dividend income

Dividends are recognized in the income statement when the Group’s right to receive payment is established.

### 2.11. Financial instruments

#### a) Classification

Classification of financial instruments at initial recognition depends on instrument's characteristics and management intention. In general the Group follows the next criteria:

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

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

The Group designates a financial instrument as at fair value trough profit or loss when:

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

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

**Held to maturity investments**
Held to maturity investments are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

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

#### b) Measurement and recognition

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

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

Regular way purchases and sales of financial instruments at fair value through profit or loss, held to maturity and available for sale, are recognized on trade date. Loans are recognized when cash is advanced to the borrowers. All other purchases and sales are recognized as derivative forward transactions until settlement.

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

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

### c) Day one profit or loss

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

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or is based on a valuation technique whose variable include only data from observable markets, the Group recognizes the difference between the transaction price and fair value in the income statement (day one profit or loss). In cases where the data used for valuation is not "fully marketable" day one profits or losses are not recognized.

The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of 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 receivables can be reclassified out of 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 held for trading category only in rare circumstances. Additionally instruments designated at fair value through profit and loss and instruments held to maturity cannot be reclassified.

### e) Derecognition

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

### f) Fair value measurement principles

The fair value of quoted financial instruments in active markets is based on current bid price at the statement of financial position 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.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the statement of financial position date.

### g) Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward and futures contracts, swaps and options, are initially recognized on the statement of financial position at fair value. Derivative financial instruments are subsequently remeasured 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 favourable to the Group, and within liabilities when unfavourable to the Group. Changes in fair value are determined on a clean price basis. Interest accruals are recorded separately from fair value measurement.

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

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

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

The 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 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. Actual results of the hedge must always fall within a range of 80 – 125 percent.

**Fair value hedge**
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of hedging instruments and related hedged items are reflected in "fair value adjustments in hedge accounting". Any ineffectiveness

is recorded in "Gains less losses on financial assets and liabilities held for trading".

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity and recorded as net interest income. The adjustment to the carrying amount of a hedged equity security is included in the income statement when the equity security is disposed of as part of the gain or loss on the sale.

### Cash flow hedge

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

Amounts accumulated in equity are recognized in 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 the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

### Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of such derivative instruments are recognized immediately in the income statement within "Gains less losses on financial assets and liabilities held for trading".

## 2.12. Impairment of financial assets

### a) Assets carried at amortized cost

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

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

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

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three and six months.

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognized in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Calculation the present value of the estimated future cash flows of collateralized financial assets reflects the cash flows that may result from foreclosure, less the cost of obtaining and selling the collateral, whether or not foreclosure is probable.

To collectively evaluation of impairment, the Group uses migration matrices, which show expected migration of customers between internal rating classes. The probability of migration is assessed on the basis of past years' experience, that is annual migration matrices for different types of customers. Exposures to individuals are additionally analyzed with regard to type of products. Based on the migration matrices and assessment of average repayment rate for D and E rated customers, the Group recognizes impairment losses also for clients that currently show no signs of impairment, but on the basis of past experience the Group justifiably estimates that some losses have already incurred.

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

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

Objective criteria that the Group uses to determine that a loan should be written off include:

- the debtor no longer performs his regular activities (termination of the legal entity),

- the Group holds no adequate collateral to be used for repayment and
- judicial recovery proceeding have concluded..

**b) Assets classified as available for sale**

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

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

Group considers the following factors in determining impairment losses on debt instruments:

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

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

**c) Renegotiated loans**

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated due to deterioration of the borrower's financial position are no longer considered to be past due but are treated as new loans. Such loans continue to be discounted using the original effective interest rate. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

**d) Repossessed property**

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are initially recognized in the financial statements at their fair values and are sold as soon as practicable in order to reduce outstanding indebtedness (note 7.1.i). After initial recognition they are measured at fair value.

### 2.13. 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 set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### 2.14. 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 to 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 repledge 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.

### 2.15. Property and equipment

All property and equipment is initially recognized at cost. Subsequently it is measured at cost less accumulated depreciation and any accumulated impairment loss.

Each year the Group assesses whether there are indications that assets may be impaired. If any such indication exists, the Group estimates the recoverable amount. The recoverable amount is the higher of net selling price and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the recoverable amount is below the carrying value, the difference is recognized as a loss in the income statement.

Depreciation is provided on a straight-line basis over their estimated useful lives. The following are approximations of the annual rates used:

| | | % | |
|---|---|---|---|
| Buildings | 2 | - | 5 |
| Leasehold improvements | 5 | - | 20 |
| Computers | 14.3 | - | 50 |
| Furniture and equipment | 10 | - | 33.3 |
| Motor vehicles | 12.5 | - | 25 |

Assets in the course of transfer or construction are not depreciated until they are available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on each statement of financial position date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred.

Day-to-day servicing costs are recognized in profit or loss as incurred. Subsequent costs that increase future economic benefits are recognized in the carrying amount of an asset.

### 2.16. Intangible assets

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

Amortization is provided on a straight-line basis at rates designed to write off the cost of software over its estimated useful life. Core banking system is amortized over period of 10 years, other software over a period of 3 to 5 years and customer relationships over a period of 12 to 15 years.

Assets in the course of transfer or construction/ implementation are not amortized until they are available for use.

### 2.17. Investment property

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

### 2.18. Non-current assets held for sale

Non-current assets 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 regarded as 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 classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. The effects of sale and valuation are included in the income statement as profit or loss from non-current assets held for sale.

### 2.19. 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. Leasing contracts are accounted for in accordance with their classification as a 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.

#### A Group company as lessee

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

Financial leases are recognized as an asset and liability at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Leased assets are depreciated in accordance with the 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 Group will obtain ownership by the end of the lease term. Lease payments are apportioned between finance charge and the reduction of the outstanding liability so as to produce constant periodic rate of interest on the remaining balance of the liability.

#### A Group company as lessor

Payments under operating leasing are recognized as an 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 an investment property or property and equipment.

Group classifies lease as a finance lease when risks and rewards incidental to ownership of a leased asset lie with the lessee. When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. Income from finance leasing transactions is apportioned systematically over the primary lease period, reflecting a constant periodic return on the lessor's net investment outstanding. Finance lease receivables are recognized at an amount equal to the net investment in the lease including unguaranteed residual value.

#### Sale-and-leaseback transactions

Group also enters into sale-and-leaseback transactions (Group is mainly 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.

### 2.20. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with Central Banks except for obligatory reserve, securities held for trading, loans to banks and debt securities not held for trading with original maturity of up to 90 days.

### 2.21. Borrowings

Borrowings are recognized initially at fair value, that is their issue proceeds (fair value of consideration received) net of transaction cost incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

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

### 2.22. Provisions

Provisions are recognized when the 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.

### 2.23. Financial guarantee contracts

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

Financial guarantee contracts are initially recognized at fair value which is equal to the fee received. Fee is amortized to the income statement by using the straight-line method. The Group's liabilities under guarantees are subsequently measured:

- at the higher of the initial measurement, less amortization calculated to recognize fee income and
- the best estimate of the expenditure required to settle the obligation.

### 2.24. Inventories

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

### 2.25. Taxation

Income tax is provided on taxable profits at the rate prescribed by the Corporate Income Tax Law.

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

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

Deferred tax related to fair value remeasurement of available for sale investments and cash flow hedges is charged or credited directly to other comprehensive income and subsequently recognized in the income statement together with the deferred gain or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

In the year 2009 Group recorded net loss as a result of financial crisis. The deferred tax assets recognized at 31 December 2009 have been based on future profitability assumptions and business plans for coming years. In the event of changes to these assumptions, the tax assets may be adjusted.

Deferred tax asset for temporary differences arising from investments in subsidiaries, associated and jointly controlled companies are recognized to the extend that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future and
- taxable profit will be available.

### 2.26. Fiduciary activities

The Group provides Asset Management services to its clients. Assets held in a fiduciary capacity are not reported in the Group's financial statements, as they do not represent assets of the Group. Fee and commission income charged for this type of service is divided by items in note 5.3.b). Further details on transactions managed on behalf of third parties are disclosed in note 6.28.

Based on the requirements of local legislation, Group has additionally disclosed in note 6.28. assets and liabilities on accounts used to manage cash assets from fiduciary activities, for example information related to receipt, processing and execution of orders and related custody activities.

### 2.27. Employee benefits

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long-service benefits. Valuations of these obligations are carried out by independent qualified actuaries. The main actuarial assumptions included in the calculation of the obligation for other long-term employee benefits are:

- applicable discount rate - between 7.5% and 18%,
- number of employees eligible for benefits – 31 December 2009: 7,369 - and

- future salary increases using general salary inflation index, promotions and increases in salaries according to past years of service – between 4.75% and 16%.

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

These obligations are measured at the present value of future cash outflows. All gains and losses are recognized in the income statement.

The Group contributes to the State Pension Scheme. The Group makes payments to a contribution plan according to legislation. Once contributions have been paid, the Group has no further payment obligation. The regular contributions constitute net periodic costs for the year in which they are due and are included in employee costs as they are incurred.

Provisions for termination benefits are provided as a result of an offer made to employees in order to encourage retirements before the normal retirement date.

## 2.28. Share capital

### Dividends on ordinary shares

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

### Treasury shares

Where the Bank or other member of the consolidated Group purchases the Bank's shares, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in shareholders' equity. If some of the Bank's shares are held by the Bank or its subsidiaries, the Bank is obliged to have reserves for treasury shares.

### Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

## 2.29. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the operating decision-maker. The operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Group executive board as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following business segments: banking Slovenia, banking abroad, leasing, factoring and forfeiting, asset management and other segments.

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

### a) Impairment losses on loans and advances

The Group members review its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group member makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Individual estimates are based on future cash flows assessed by account officers using all relevant information on counterparty and its ability to meet specific obligations. Low-value exposures are reviewed on a pool basis. This includes all loans to individuals. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### b) Fair value of financial instruments

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the reporting date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads. Changes in assumptions about these factors could affect reported fair values of trading assets and liabilities and available for sale financial assets.

The Group measures fair values of derivative financial instruments by using market prices (Mark to Market), in accordance with the Methodology for Valuation of Derivative Financial Instruments. Foreign exchange rates, interest rates and volatility curves are based on the Market Snapshot principle. Market data is saved daily at 4 p.m. and later used for calculation of fair values (Market value, NPV) of derivative financial instruments. For valuation of derivatives the Group applies market yield curves.

**c) Impairment of available for sale equity investments**

The Group determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In the year 2009 the Group recorded impairment losses on investments in the amount of Euro 4.8 million (in 2008: losses by Euro 71.4 million) as a result of decline of fair values (note 5.11).

**d) Held to maturity investments**

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity investments. Before making this classification the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortized cost. If the entire class of held to maturity investments is tainted, the fair value would increase by Euro 18,927 thousand (31 December 2008: increase by Euro 12,054 thousand), with a corresponding entry in the fair value reserve in shareholders' equity.

**e) Goodwill and other intangible assets**

Goodwill and other intangible assets are allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which these assets are monitored by management). Each individual company, member of NLB Group, presents separate CGU. The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. The Group performed test of impairment of goodwill and other intangible assets as at year end for all subsidiaries.

The process of identifying and evaluating impairment is inherently uncertain because it requires significant management judgement in making a series of estimates, the results of which are relatively sensitive to the assumptions used. The review of impairment represents management's best estimate of the factors such as:

- Future cash flows of the investments are sensitive to the cash flow projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flow thereafter. The cash flow used represents management's view of future business prospects at the time of assessment.
- Discount rate derived from a Capital Asset Pricing Model and used to discount future cash flows is based on the cost of equity assigned to an individual investment. Discount rate reflects range of financial and economic variables including risk free rate and risk premium. The variables are subject to fluctuations outside management's control.

Additional information regarding impairment testing on goodwill and other intangible assets is disclosed under note 6.13.

Management believes that the sensitivity analysis of impairment testing is adequately robust to reasonably possible changes in underlying assumptions.

**f) Income taxes**

The Group is subject to income taxes in different jurisdictions. The deferred tax assets recognized at 31 December 2009 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognized may be changed.

**g) Employee benefits**

The present value of the employee benefits depends on factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the obligation. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to settle the obligation. In determining the appropriate discount rate, the Group considers the interest rate of high quality corporate bonds.

**h) Investment properties**

Management estimates the fair values of investment properties by discounting expected net rentals at market yields.

## 2.31. Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are effective for accounting periods beginning on 1 January 2009.

**The following new standards and amendments to standards have been early adopted:**

- IFRS 3 (amendment), Business Combinations and consequential amendments to IAS 27 (amendment), Consolidated and Separate Financial Statements, IAS 28 (amendment), Investments in Associates and IAS 31 (amendment), Interests in Joint Ventures, effective prospectively to business combinations for which the acquisition date is on or after beginning of the first annual reporting period on or after 1 July 2009. The revised IFRS 3 continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice, on an acquisition by acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs should be expensed. This will enhance the relevance, reliability and comparability of information about business combinations, transactions with non–controlling shareholders, changes of the entity's status and their effects to financial statements. The most important impact on consolidated financial statements of amended standards relates to treatment of transactions with non-controlling owners. All effects of such transactions are recognized within equity without any changes of goodwill.

**Accounting standards and amendments to existing standards effective on or after 1 January 2009 that were endorsed by EU:**

- IFRS 2 (Amendment) Share based payment – Vesting conditions and cancellations. The changes pertain mainly to the definitions of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non vesting conditions are not fulfilled. The amendment does not effect on the Group's financial statements.

- IFRS 5 (Amendment) - Non-current Assets Held for Sale and Discontinued Operations. The amendment proposes that all assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary. The amendment also clarifies the relevant disclosures for subsidiary required for discontinued operations. The amendment does not effect on the Group's financial statements.

- IFRS 7 (Amendment) – The amendments require enhanced disclosures about fair value measurements of financial instruments and liquidity risk management. In particular the amendment requires disclosure of fair value measurement by level of a fair value measurement hierarchy. The amendment does not effect Group's operations, but it requires additional disclosures.

- IFRS 8 - Operating segments. IFRS 8 replaces IAS 14. It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes to the group executive board, which makes decisions on the allocation of resources and assess the performance of the reportable segments. It does not effect the Group's operations, but only the required disclosures about its operating segments.

- IAS 1 (Amendment) - Presentation of financial statements. The amendment to the standard requires entities to present all non-owner changes in equity either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Each component of equity, including each item of other comprehensive income, should be reconciled between the carrying amount at the beginning and the end of the period. The amendment also requires presenting a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. The amendment impacts presentation aspects.

- IAS 16 (Amendment) - Property, Plant and Equipment and consequential amendment to IAS 7 - Statement of Cash Flows. Entities whose primary activities comprise renting and subsequently selling assets should present proceeds from the sale of those assets as revenue. Such assets should be classified as inventories from the point that the assets cease to be leased and become held for sale. A consequential amendment to IAS 7 states that cash flows arising from the purchase, rental and sale of such assets are classified as cash flows from operating activities. The amendment impacts presentation aspects.

- IAS 19 (Amendment) - Employee Benefits. The amendment clarifies the distinction between short-term and long-term employee benefits and supplements the definition of benefit obligation. The amendment achieves consistency with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, which states that contingent liabilities should not be recognized, but should be disclosed. The amendment does not effect the Group's financial statements.

- IAS 20 (Amendment) - Accounting for Government Grants and Disclosure of Government Assistance. The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net transaction costs. The amendment does not effect the Group's financial statements.

- IAS 23 (Amendment) - Borrowing costs. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The definition of borrowing costs has been amended and adjusted to method in IAS 39 - Financial Instruments: Recognition and Measurement.

Consequently the borrowing costs are measured according to the effective interest rate method. The amendment does not have a material effect on the Group's financial statements.

- IAS 28 (Amendment) - Investments in Associates and consequential amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 - Reclassification of Financial Assets. The amendment proposes that an investment in an associate should be treated as a single asset for impairment testing. The impairment is not allocated to any assets included within the investment, for example goodwill. Accordingly, reversals of this impairment should be recognized as an adjustment to the investment to the extent that the recoverable amount of the associate increases. The amendment does not effect the Group's financial statements.

- IAS 29 (Amendment) - Financial Reporting in Hyperinflationary Economies. The amendment to the standard requires that types of assets and liabilities should be measured at fair value and not by the historical cost approach. The amendment does not effect the Group's financial statements.

- IAS 32 (Amendment) - Puttable Financial Instruments and Obligations Arising on Liquidation and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. Puttable financial instruments that present a residual interest in the net assets of the entity are now classified as equity provided that specific conditions are met. Similar to those requirements is the exception to the definition of financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. The amendment does not effect the Group's financial statements.

- IAS 36 (Amendment) - Impairment of Assets. The amendment requires increased disclosures if fair value less costs to sell is calculated on the basis of discounted cash flows. The amendment impacts disclosure aspects.

- IAS 38 (Amendment) - Intangible Assets. The amendment clarifies that expenditure on advertising and promotional activities can only be recognized as an expense at the time that the benefit of the goods or services becomes available to the entity. The standard no longer contains the provision that states that there is 'rarely, if ever' existence of founded reason for using an amortization method that allows lower rates than straight-line amortization method. The amendment does not effect the Group's financial statements.

- IAS 39 (Amendment) – Financial instruments: Recognition and Measurement. The amendment clarifies that it is possible to reclassify derivatives used as a hedging instrument into and out of the fair value through profit or loss category in specific circumstances. The amendment permits the designation of assets, liabilities, firm commitments or highly probable forecast transactions as hedged items only when they involve a party external to the entity. When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used. This will not give rise to any changes to the Group's financial statements.

- IAS 40 (Amendment) - Investment Property and consequential amendment to IAS 16 - Property, Plant and Equipment. Property that is under construction or development for future use as investment property is classified as investment property. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. The amendment does not effect the Group's financial statements.

- IFRIC 15 – Agreements for the Construction of Real Estate. This interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It does not have any impact on the Group's financial statements.

- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008). The interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that the net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. It does not have any impact on the Group's financial statements.

**Accounting standards and amendments to standards issued but not yet effective:**

The following standards and interpretations have been issued and are mandatory for the accounting periods beginning on or after 1 July 2009.

- IFRS 1 and IAS 27 (Amendment) - Cost of an investment in a subsidiary, jointly controlled entity or associate. The amended standard allows first time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor. The amendment will not impact the Group's financial statements.

- IAS 39 (Amendment) – Financial instruments: Recognition and measurement – Eligible hedged items. The amendment provides guidance for two situations. With the designation of a one sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted except in particular situations. This will not give rise to any changes to the Group's financial statements.

- IFRIC 17 – Distributions of non-cash assets to owners. This addresses how the non-cash dividends distributed to shareholders should be measured. A dividend obligation is recognized when the dividend was authorized by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognized at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognized in profit and loss. The application of IFRIC 17 will have no impact on the financial statements of the Group.

- IFRIC 18 - Transfer of assets from customers. This clarifies how to account for transfer of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must than use that item to provide the customer with ongoing access to supply of goods and or services. The Group is not impacted by applying IFRIC 18.

- IFRIC 19 – Extinguishing financial liabilities with equity instruments. It clarifies the requirements of IFRICs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Group is not impacted by IFRIC 19.

- IFRS 9 – Financial instruments part 1: Classification and measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only basic loan features). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity instruments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument by instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption.

## 3. CHANGES IN SUBSIDIARY HOLDINGS

In 2009 and 2008 the following changes occurred which had an impact on the consolidated financial statements.

**Changes in 2009**

**a) Acquisitions of additional interests in existing bank subsidiaries**

NLB increased its ownership interest in following bank subsidiaries:

- NLB Razvojna banka, Banja Luka from 81.5% to 99.85%, consideration given amounted to Euro 20,170 thousand;
- LHB Internationale Handelsbank, Frankfurt from 98.95% to 100%, consideration given amounted to Euro 810 thousand;
- NLB banka, Beograd from 92.54% to 99.98%, consideration given amounted to Euro 6,844 thousand (including purchase of 0.5% treasury shares).

**b) Other changes**

- NLB Leasing, Ljubljana sold its 75.10% ownership interest in OL Nekretnine, Zagreb to NLB Leasing Koper, Koper;
- LHB Internationale Handelsbank, Frankfurt sold its 100% ownership interest in LHB Finance, Ljubljana to NLB;
- LHB Internationale Handelsbank, Frankfurt sold its 16.86% ownership interest in NLB banka, Beograd to NLB;
- LHB Trade, Zagreb sold its 32.31% ownership interest in Plan, Banja Luka to NLB;
- The increase of share capital was registered in NLB Nova Penzija, Beograd, NLB Montenegrobanka, Podgorica, NLB Banka Sofia, Sofija, LHB Finance,

Ljubljana, NLB banka, Beograd, NLB Tuzlanska Banka, Tuzla and LHB Internationale Handelsbank, Frankfurt;
- LHB Consult, Beograd was liquidated;
- Nov penziski fond, Skopje was renamed to NLB Nov penziski fond, Skopje;
- NLB West-East Bank, Sofija was renamed to NLB Banka Sofia, Sofija.

### Changes in 2008

#### a) Acquisitions of additional interests in existing bank subsidiaries

NLB increased its ownership interest in following bank subsidiaries:

- NLB Continental banka, Novi Sad from 99.5% to 100%, consideration given amounted to Euro 377 thousand;
- NLB Prishtina, Priština from 80.39% to 81.21%, consideration given amounted to Euro 442 thousand;
- LHB Internationale Handelsbank, Frankfurt from 81.02% to 98.95%, consideration given amounted to Euro 13,417 thousand. In January 2009 NLB acquired the rest 1.05% share in LHB Internationale Handelsbank, Frankfurt and became its 100% owner.

#### b) Mergers

- The process of mergering of NLB Kasabank, Priština and of NLB New Bank of Kosova, Priština was completed on 1 January 2008. New bank officiates under the name NLB Prishtina, Priština. The ownership interest in NLB Prishtina, Priština after merger is 80.39%;
- In May 2008 NLB Banka Domžale, Domžale, NLB Banka Zasavje, Trbovlje and NLB Koroška banka, Slovenj Gradec merged with NLB. Accounting date of the merger was 30 June 2007;
- NLB Leasing Velenje, Velenje and NLB Leasing, Murska Sobota merged with NLB Leasing, Ljubljana on 1 July 2008;
- NLB LHB banka, Beograd merged with NLB Continental Banka, Novi Sad on 31 December 2008. New bank officiates under the name NLB banka, Beograd, after the acquirement of consensus of the government of Republic of Serbia the name of the bank will be NLB Banka Srbija, Beograd. The ownership interest in NLB banka, Beograd after the mergering is 92.54%.

Only the merger transaction of NLB LHB Banka, Beograd and NLB Continental banka, Novi Sad had impact on increase of minority interest in the amount of Euro 1,470 thousand.

#### c) Other changes

- The increase of share capital was registered in NLB West-East Bank, Sofija, NLB Montenegrobanka, Podgorica, NLB Nova penzija, Beograd, NLB Razvojna banka, Banja Luka, NLB Tutunska banka, Skopje, NLB InterFinanz, Zürich, NLB Leasing, Ljubljana, NLB Leasing Maribor, Maribor, NLB Leasing Koper, Koper, Banka Celje and NLB Srbija, Beograd;
- LHB Internationale Handelsbank, Frankfurt sold its 32.81% ownership interest in NLB Tutunska banka, Skopje to NLB;
- LHB Internationale Handelsbank, Frankfurt sold its 52.51% ownership interest in NLB Razvojna banka, Banja Luka to NLB;
- NLB Beograd renamed to NLB Srbija, Beograd.

## 4. EVENTS AFTER REPORTING DATE

In March 2010 Supervisory Board of NLB d.d. approved merger with subsidiary company LHB Finance d.o.o.. Merger will be formally registered in May 2010 with the accounting date of merger as at 31 December 2009.

# 5. NOTES TO THE INCOME STATEMENT

## 5.1. Interest income and expenses

### Analysis by type of assets and liabilities

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **Interest and similar income** | | |
| Loans and advances to customers | 764,125 | 917,689 |
| Available for sale financial assets | 62,486 | 95,135 |
| Loans and advances to banks | 29,757 | 87,195 |
| Financial assets held for trading | 27,597 | 38,889 |
| Derivatives - hedge accounting | 22,837 | 5,382 |
| Held to maturity investments | 22,468 | 22,113 |
| Deposits with Central Banks | 5,362 | 21,034 |
| Other assets | 35 | 100 |
| **TOTAL** | **934,667** | **1,187,537** |
| **Interest and similar expenses** | | |
| Due to customers | 266,538 | 281,743 |
| Borrowings from banks | 114,659 | 272,927 |
| Debt securities in issue | 42,878 | 22,329 |
| Subordinated liabilities | 27,772 | 53,715 |
| Derivatives - hedge accounting | 20,099 | 4,498 |
| Financial liabilities held for trading | 18,984 | 12,702 |
| Deposits from banks | 16,445 | 60,488 |
| Borrowings from other customers | 3,088 | 2,279 |
| Other liabilities | 1,037 | 826 |
| **TOTAL** | **511,500** | **711,507** |
| **NET INTEREST** | **423,167** | **476,030** |

Interest income accrued on impaired financial assets in 2009 is Euro 23,193 thousand (2008: Euro 11,406 thousand).

## 5.2. Dividend income

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Financial assets held for trading | 979 | 1,442 |
| Available for sale financial assets | 1,148 | 1,484 |
| **TOTAL** | **2,127** | **2,926** |

## 5.3. Fee and commission income and expenses

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

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **Fee and commission income** | | |
| Payments | 69,649 | 74,693 |
| Administrative services | 57,247 | 54,875 |
| Agency services | 37,491 | 36,997 |
| Guarantees | 20,067 | 21,385 |
| Investment funds | 6,488 | 7,484 |
| Depositing valuables in safe custody | 773 | 700 |
| Other services | 412 | 282 |
| **TOTAL** | **192,127** | **196,416** |
| | | |
| **Fee and commission expenses** | | |
| Banking services | 23,056 | 22,391 |
| Agency services | 10,944 | 9,033 |
| Payments | 4,163 | 3,014 |
| Brokerage | 402 | 597 |
| **TOTAL** | **38,565** | **35,035** |
| | | |
| **NET GROUP ACTIVITY FEE AND COMMISSION INCOME** | **153,562** | **161,381** |

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

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **Fee and commission income related to fiduciary activities** | | |
| Receipt, processing and execution of orders | 572 | 1,390 |
| Management of financial instruments portfolio | 641 | 832 |
| Investment advice | 24 | 136 |
| Initial or subsequent underwriting and/or placing of financial instruments on a firm commitment basis | 60 | - |
| Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis | 401 | 381 |
| Custody and similar services | 2,981 | 3,656 |
| Management of clients' account of non-materialized securities | 275 | 171 |
| Safekeeping of clients' financial instruments | 3 | 3 |
| Advice to companies on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of companies | 123 | 104 |
| **TOTAL** | **5,080** | **6,673** |
| | | |
| **Fee and commission expenses related to fiduciary activities** | | |
| Fee and commission related to Central Securities Clearing Corporation and similar organizations | 1,223 | 1,661 |
| Fee and commission related to stock exchange and similar organizations | 51 | 82 |
| **TOTAL** | **1,274** | **1,743** |
| | | |
| **NET FEE INCOME RELATED TO FIDUCIARY ACTIVITIES** | **3,806** | **4,930** |
| **Total fee and commission income** | **197,207** | **203,089** |
| **Total fee and commission expenses** | **39,839** | **36,778** |
| **TOTAL a) and b)** | **157,368** | **166,311** |

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

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Available for sale financial assets | 4,782 | 15,702 |
| Financial liabilities measured at amortized cost | - | 430 |
| **TOTAL** | **4,782** | **16,132** |

Foreign exchange translation net losses on financial assets and liabilities not classified as at fair value through profit or loss, amounted to Euro 5,984 thousand in 2009 (2008: net gains Euro 34,874 thousand).

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

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Equity instruments | 10,105 | (48,359) |
| Debt instruments | (1,374) | 2,283 |
| Foreign exchange trading | 7,255 | 11,080 |
| Derivatives | | |
| • currency | 5,040 | (28,943) |
| • interest rate | 319 | (15,283) |
| • cross currency interest rate | (345) | (4,321) |
| • securities | (4,567) | 19,757 |
| • other | 55 | (235) |
| **TOTAL** | **16,488** | **(64,021)** |

The Group uses currency derivatives to hedge its currency exposure. For this purpose their effects need to be considered in relation to currency exchange differences within the Income statement. From the business perspective these derivatives represent effective hedging instruments that are not accounted for using hedge accounting principles. In the Group's financial statements they are accounted for as financial instruments held for trading.

## 5.6. Other operating income

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Income from non-banking services | 30,885 | 29,567 |
| Rental income from investment property | 1,609 | 1,217 |
| Revaluation of investment property to fair value (note 6.12.) | 142 | 327 |
| Other operating income | 13,964 | 11,559 |
| **TOTAL** | **46,600** | **42,670** |

Income from non-banking services relates to income from IT services, income from operating leasing of movable property and income from disposal of repossessed leased assets. Other income includes compensated court taxes, discounts from paid insurance premiums and positive effect from the changes in value added tax deduction ratio. In 2009 other operating income includes change in value of inventories and unfinished products in the amount of Euro 2,970 thousand (2008: Euro 1,128 thousand).

## 5.7. Other operating expenses

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Membership fees | 2,655 | 2,513 |
| Taxes and other compulsory public revenues | 2,346 | 2,782 |
| Revaluation of investment property to fair value (note 6.12.) | 135 | - |
| Other operating expenses | 1,898 | 2,357 |
| **TOTAL** | **7,034** | **7,652** |

## 5.8. Administrative expenses

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **Employee costs:** | | |
| • gross salaries | 174,685 | 180,227 |
| • pension security contributions | 14,241 | 14,373 |
| • social security contributions | 12,552 | 12,434 |
| • employee benefits (note 6.20.c) | 11,057 | 8,535 |
| | | |
| **Other general and administrative expenses:** | | |
| • services | 56,773 | 56,633 |
| • materials | 18,525 | 19,499 |
| • maintenance | 17,560 | 15,723 |
| • rents | | |
| • property | 8,855 | 10,725 |
| • software and others | 6,703 | 5,600 |
| • insurance | 10,227 | 9,093 |
| • consulting services | 8,424 | 7,211 |
| • advertising | 8,101 | 10,754 |
| • travel costs | 3,763 | 4,126 |
| • entertainment expenses | 1,874 | 2,760 |
| • education and scholarships | 1,410 | 1,967 |
| • other administrative expenses | 87 | 399 |
| **TOTAL** | **354,837** | **360,059** |

The number of employees in the Group as at 31 December 2009 was 8,019 (31 December 2008: 8,461).

### External audit services

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Audit of annual report | 1,142 | 1,062 |
| Other audit services | 389 | 185 |
| Tax and other consulting | 74 | 106 |
| Other non-audit services | 591 | 222 |
| **TOTAL** | **2,196** | **1,575** |

External audit services include payments to the statutory auditor in the amount of Euro 1,890 thousand (2008: Euro 950 thousand).

## 5.9. Depreciation and amortization

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Depreciation of property and equipment (note 6.11.) | 37,842 | 37,632 |
| Amortization of intangible assets (note 6.13.) | 24,947 | 25,528 |
| **TOTAL** | **62,789** | **63,160** |

## 5.10. Provisions for other liabilities and charges

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Guarantees and commitments (note 6.20.b) | (2,332) | (11,155) |
| Provisions for premiums from National Saving Scheme (note 6.20.d) | 1,810 | 14 |
| Other provisions (note 6.20.e) | (264) | 3,531 |
| **TOTAL (RELEASE)** | **(786)** | **(7,610)** |

## 5.11. Impairment charge

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **Impairment of financial assets** | | |
| Available for sale financial assets (note 6.4.b) | 3,915 | 71,448 |
| Loans and advances to banks (note 6.16.b) | 6,945 | 10,119 |
| Loans to government (note 6.16.b) | 428 | 699 |
| Loans to financial organizations (note 6.16.b) | 17,745 | 2,839 |
| Loans to individuals (note 6.16.a) | | |
| • Granted overdrafts | 3,999 | (261) |
| • Loans for houses and flats | 8,812 | 6,865 |
| • Consumer loans | 24,787 | 12,844 |
| • Other loans | 2,303 | 2,641 |
| Loans to other customers (note 6.16.b) | | |
| • Loans to large corporate customers | 99,002 | 20,531 |
| • Loans to small and medium size enterprises | 129,581 | 86,180 |
| Other financial assets (note 6.16.b) | 225 | 4,972 |
| **TOTAL** | **297,742** | **218,877** |
| | | |
| **Impairment of other financial assets** | | |
| Tangible assets (note 6.11.) | 8,277 | - |
| Intangible assets (note 6.13.) | 9,754 | 191 |
| Other | 498 | (7) |
| **TOTAL** | **18,529** | **184** |
| | | |
| **IMPAIRMENT TOTAL** | **316,271** | **219,061** |

## 5.12. Income tax expense

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Tax on profit | 8,389 | 27,716 |
| Deferred tax (note 6.21.) | (8,369) | (12,358) |
| **TOTAL** | **20** | **15,358** |

The tax on the Group's profit before tax differs from theoretical amount that would arise using the basic tax rate of the Bank as follows:

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| (Loss)/profit before tax | (85,893) | 38,193 |
| Tax calculated at prescribed rate 21% (in 2008: 22%) | (18,038) | 8,402 |
| Effects of tax rate difference | (2,287) | (4,495) |
| Income not assessable for tax purposes | (268) | (4,463) |
| Expenses not deductible for tax purposes | 20,739 | 15,981 |
| Income which increases taxable basis | 138 | 136 |
| Expenses which decrease taxable basis | (264) | (203) |
| **TOTAL** | **20** | **15,358** |

The income tax rate applicable to the income of the Group ranges from 9% to 30%.

The Slovene tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The management of members of the Group is not aware of any circumstances that may give rise to a potential material liability in this respect.

## 5.13. Earnings per share

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

| | 2009 | 2008 |
|---|---|---|
| Net (loss)/profit (in thousand of euros) | (86,762) | 20,519 |
| Weighted average number of ordinary shares (in thousand) | 8,871 | 8,402 |
| Basic and diluted (loss)/earnings per share (in euros per share) | (9.8) | 2.4 |

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

# 6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 6.1. Cash and balances with the Central Banks

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Cash | 170,690 | 180,813 |
| Balances with the Central Banks other than obligatory reserves | 371,528 | 200,465 |
| **Included in cash and cash equivalents** | **542,218** | **381,278** |
| Obligatory reserves with the Central Banks | 454,046 | 449,614 |
| **TOTAL** | **996,264** | **830,892** |

Slovenian banks are required to maintain an obligatory reserve with the Bank of Slovenia, relative to the volume and structure of its customer deposits; other banks in the Group maintain an obligatory reserve according to local legislation.

The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as obligatory reserve is 2% of all time deposits a maturity up to two years.

## 6.2. Trading assets

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Derivatives, excluding hedges** | | |
| Future contracts | | |
| • currency futures | 135 | - |
| • interest rate futures | 85 | 14 |
| Forward contracts | | |
| • currency forward | 662 | 5,295 |
| • cross currency interest rate forward | 7 | - |
| • securities forward | 10,173 | 8,883 |
| Options | | |
| • currency options | 6,099 | 9,184 |
| • interest rate options | 1,610 | 1,801 |
| • securities options | 11,555 | 10,747 |
| Swap contracts | | |
| • currency swaps | 3,171 | 4,262 |
| • interest rate swaps | 32,757 | 20,249 |
| • cross currency interest rate swaps | 487 | 590 |
| **Total derivatives** | **66,741** | **61,025** |
| **Securities:** | | |
| Bonds | | |
| • government | 4,413 | 19,748 |
| • banks | 6,186 | 23,305 |
| • other issuers | 12,038 | 103,673 |
| Shares | 68,717 | 82,556 |
| Commercial bills | 199,965 | 180,888 |
| Other securities | 458 | 4,147 |
| **Total securities** | **291,777** | **414,317** |
| **TOTAL** | **358,518** | **475,342** |

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

**The following table shows the carrying values at 31 December 2009 and fair values of the assets reclassified:**

| In thousand of euros | Fair value at the date of reclassification | Carrying amount as at 31 December 2009 | Far value at 31 December 2009 |
|---|---|---|---|
| Financial assets held for trading reclassified to loans and receivables | 69,925 | 69,794 | 63,350 |

For the years ended 31 December 2009 and 31 December 2008, fair value gains of Euro 179 thousand and Euro 586 thousand, prior to reclassification, were recognized in the income statement on the reclassified bonds.

Effective interest rates on financial assets reclassified into loans and receivables group as at their respective dates of reclassification fell into the range of 4.15% - 4.23%. Interest income recognized after reclassification amounted to Euro 2,836 thousand.

Estimated amounts of undiscounted cash flows the Group expects to recover from reclassified bonds as at the date of reclassification.

| In thousand of euros | 1 year or less | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Financial assets held for trading reclassified to loans and receivables | 2,920 | 2,920 | 8,760 | 100,241 | 114,841 |

As at 31 December 2009 securities held for trading amounting to Euro 65,013 thousand were quoted on a stock exchange (31 December 2008: Euro 349,434 thousand).

Trading assets in the amount of Euro 2,187 thousand (31 December 2008: Euro 7,137 thousand) have original maturity up to three months and are included within cash equivalents.

The total amount of the change in fair value estimated using a valuation technique that was recognized in profit or loss during 2009 was positive in the amount of Euro 14,664 thousand (2008: negative in the amount of Euro 31,606 thousand).

Notional amounts of derivative financial instruments are disclosed in note 6.27.d).

## 6.3. Financial assets designated at fair value through profit or loss

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Shares | 27,188 | - |
| Private equity fund | 926 | 1,019 |
| Other investments | 1,683 | 1,454 |
| **TOTAL** | **29,797** | **2,473** |

Financial assets designated at fair value through profit or loss also include also private equity fund in the form of venture capital investments and investments in mutual funds. These investments are managed and evaluated on a fair value basis and total return in accordance with the investment strategy which among other terms also defines the required return and exit strategy.

## 6.4. Available for sale financial assets

### a) Analysis by type of available for sale financial assets

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Bonds | | |
| • government | 739,934 | 731,902 |
| • banks | 412,774 | 390,405 |
| • other issuers | 58,146 | 51,317 |
| Certificates of deposit | 36,844 | 103,625 |
| Shares | 190,406 | 33,742 |
| Treasury bills | 1,334,600 | 852,116 |
| Other securities | 89,867 | - |
| **TOTAL** | **2,862,571** | **2,163,107** |

### b) Analysis of movements

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 2,163,107 | 2,223,407 |
| Exchange differences on opening balances | (3,300) | 2,447 |
| Additions | 3,331,422 | 4,068,093 |
| Disposals | (2,700,872) | (4,089,817) |
| Interest | 41,375 | 39,708 |
| Exchange differences on monetary assets | (137) | 650 |
| Changes in fair values | 34,891 | (9,933) |
| Impairment (note 5.11.) | (3,915) | (71,448) |
| **Balance at 31 December** | **2,862,571** | **2,163,107** |

As at 31 December 2009 available for sale securities amounting to Euro 2,642,752 thousand (31 December 2008: Euro 2,028,724 thousand) were quoted on a stock exchange.

As at 31 December 2009 the Group has available for sale financial assets in amount of Euro 57,583 thousand with original maturity up to three months which are included within cash equivalents (31 December 2008: Euro 111,209 thousand).

As at 31 December 2009 the Bank has no securities pledged to third parties in sale and repurchase agreements (31 December 2008: Euro 400,682 thousand). For 2008 these securities were presented separately in the statement of financial position as pledged assets.

Impairment of equity securities in the amount of Euro 4,820 thousand (31 December 2008: 71,448 thousand) has been recorded as a result of significant decline of fair values.

Available for sale financial assets in the amount of Euro 882,447 thousand (31 December 2008: Euro 749,274 thousand) have a remaining contractual maturity of more than twelve months.

The value of financial assets, available for sale that the Group obtained by taking possession of collateral held as security and recognized them in the statement of financial position is Euro 156,756 thousand (31 December 2008: nil).

### c) Revaluation reserve

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | (26,306) | 12,907 |
| Exchange difference on opening balance | 48 | 28 |
| Net gains/(losses) from changes in fair value | 30,976 | (81,381) |
| (Gains)/losses transferred to net profit on disposal | (867) | 55,746 |
| Deferred income tax (note 6.21.) | (1,794) | 2,839 |
| Equity changes of associated companies (note 6.14.b) | 4,268 | (16,017) |
| Minority interests | (181) | (428) |
| **Balance at 31 December** | **6,144** | **(26,306)** |

## 6.5. Derivatives - hedge accounting

### a) Fair value hedge

| In thousand of euros | | | |
|---|---|---|---|
| Interest rate swap | Notional amount | Fair value | |
| | | Asset | Liability |
| 31.12.2009 | 2,861,679 | 28,270 | 25,765 |
| 31.12.2008 | 209,695 | 8,093 | 5,587 |

Net losses on hedging instruments amounted to Euro 4,970 thousand in 2009 (2008: net gains Euro 3,281 thousand) and net gains on hedged items were Euro 5,098 thousand (2008: net losses Euro 2,367 thousand).

## b) Cash flow hedge

| In thousand of euros | | | |
|---|---|---|---|
| Interest rate swap | Notional amount | Fair value | |
| | | Asset | Liability |
| 31.12.2009 | 239,455 | 433 | 7,151 |
| 31.12.2008 | 160,667 | 2 | 4,461 |

| | | | |
|---|---|---|---|
| **Total a) and b)** | | | |
| **31.12.2009** | **3,101,134** | **28,703** | **32,916** |
| **31.12.2008** | **370,362** | **8,095** | **10,048** |

## Future Cash Flows

| In thousand of euros | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
|---|---|---|---|---|---|
| 31.12.2009 | | | | | |
| • Outflow | (439) | (1,758) | (4,360) | (9,703) | (3,780) |
| • Inflow | 254 | 354 | 1,754 | 6,954 | 3,976 |
| | | | | | |
| 31.12.2008 | | | | | |
| • Outflow | - | (1,805) | (4,826) | (11,559) | (3,728) |
| • Inflow | - | 1,733 | 3,668 | 8,376 | 3,503 |

## c) Revaluation reserve

A loss on hedging instruments in the amount of Euro 830 thousand (2008: loss Euro 5,157 thousand) was recognized directly in other comprehensive income, as well as the corresponding deferred income tax asset in the amount of Euro 121 thousand (31 December 2008: tax liability Euro 1,090 thousand). Effect net of tax was loss Euro 709 thousand (year 2008: loss Euro 4,067 thousand). There was no ineffectiveness that the Group should have recognized in the income statement. Effects are recycled to net interest income in the income statement. Effects are recycled to net interest income in the income statement.

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | (3,522) | 545 |
| Net (losses) on hedging instruments | (4,721) | (4,273) |
| Transfer to income statement | 3,891 | (884) |
| Deferred income tax (note 6.21.) | 121 | 1,090 |
| **Balance at 31 December** | **(4,231)** | **(3,522)** |

The Group implemented two types of hedging relationships for interest rate risk. The most often used solution is a fair value micro hedge, but the Group used a cash flow micro hedge as well. The Group measures hedge effectiveness by using the dollar-offset method.

The Group hedges its interest rate exposure by using different financial instruments (IRS, FRA, OIS, IR Futures), however, hedge relationships were imposed only in case of hedging by Interest Rate Swaps.

The Group measures its interest rate exposure by using the repricing gap analysis and by calculating the sensitivity of statement of financial position and off-balance sheet items from the economic value of capital point of view. For a portfolio of banking book securities a duration limit is set.

The Group hedges open positions within individual time buckets and because long positions are more common than short ones, Fair Value Hedges are mainly done for hedging fixed rate assets. Some Cash Flow Hedges were introduced for the same reason - swapping the floating interest rate of certain liabilities into the fixed rate to fund fixed rate assets.

The Group rarely hedges the fair value of liabilities; however some fixed rate bonds issued were swapped into floating to reduce the repricing gap within certain time buckets.

Cash flows of the hedging instrument match cash flows of the hedged item (principal terms match) in each hedging relationship.

## 6.6. Fair value level of financial instruments, measured at fair value – fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, debt instruments and derivatives on exchanges and exchanges traded derivatives.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The source of input parameters like yield curve and counterparty credit risk is Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data. This level includes equity investments, bonds and derivatives linked to these investments.

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

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

| In thousand of euros | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial instruments held for trading | | | | |
| • Debt instruments | 15,630 | 206,134 | 1,296 | 223,060 |
| • Equity instruments | 49,383 | - | 19,334 | 68,717 |
| • Derivatives | 996 | 54,627 | 11,118 | 66,741 |
| Derivatives for hedging | - | 28,703 | - | 28,703 |
| Financial assets designated at fair value through profit or loss | | | | |
| • Equity instruments | 27,118 | 1,683 | 996 | 29,797 |
| Financial assets available for sale | | | | |
| • Debt instruments | 2,461,144 | 211,021 | - | 2,672,165 |
| • Equity instruments | 181,608 | - | 8,798 | 190,406 |
| **Financial liabilities** | | | | |
| Financial instruments held for trading | | | | |
| • Derivatives | 1,461 | 56,440 | 457 | 58,358 |
| Derivatives for hedging | - | 32,916 | - | 32,916 |

In 2009 there were no transfers of financial instruments between fair value levels of measurement.

### b) Financial instruments valued by 3rd level

| In thousand of euros | Financial instruments held for trading | | | Financial assets designated at fair value through profit or loss | Financial assets available for sale | Total financial assets | Financial liabilities held for trading |
|---|---|---|---|---|---|---|---|
| | Debt instruments | Equity instruments | Derivatives | Equity instruments | Equity instruments | | Derivatives |
| Balance at 1 January 2009 | 2,011 | 19,452 | 10,560 | 1,019 | 12,696 | 45,738 | - |
| Exchange differences on opening balances | - | - | - | - | (121) | (121) | - |
| Valuation: | | | | | | | |
| • through profit or loss | 369 | (152) | 558 | (23) | (4,777) | (4,025) | 50 |
| • recognised in equity (comprehensive income) | - | - | - | - | (326) | (326) | - |
| Purchases | 66 | 34 | - | - | 1,408 | 1,508 | 407 |
| Sales, issues and settlements | (1,150) | - | - | - | (82) | (1,232) | - |
| **Balance at 31 December 2009** | **1,296** | **19,334** | **11,118** | **996** | **8,798** | **41,542** | **457** |

## 6.7. Loans and advances to banks

### Analysis by type of advance

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Time deposits | 1,005,776 | 467,198 |
| Loans | 374,178 | 469,633 |
| Demand deposits | 164,650 | 163,388 |
| Purchased receivables | 7,085 | 16,541 |
| Leasing claims | 143 | 176 |
| Called guarantees | 91 | 91 |
| | 1,551,923 | 1,117,027 |
| Allowance for impairment (note 6.16.b) | (26,606) | (20,066) |
| **TOTAL** | **1,525,317** | **1,096,961** |

Loans and advances to banks in the amount of Euro 169,799 thousand (31 December 2008: Euro 230,227 thousand) are expected to be recovered after more than twelve months.

Loans and advances to banks in the amount of Euro 892,882 thousand (31 December 2008: Euro 685,298 thousand) have an original maturity up to three months and are included within cash equivalents.

## 6.8. Loans and advances to customers

### a) Analysis by type of advance

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Loans | 12,030,656 | 12,298,786 |
| Finance lease receivables | 614,322 | 684,212 |
| Overdrafts | 426,031 | 422,281 |
| Receivables from card business | 115,664 | 64,712 |
| Called guarantees | 19,027 | 13,524 |
| Securities purchased under agreements to resell | 6,670 | 31,530 |
| | 13,212,370 | 13,515,045 |
| Allowance for impairment (note 6.16.) | (879,452) | (598,115) |
| **TOTAL** | **12,332,918** | **12,916,930** |

In the case of securities purchased under agreements to resell the Group records these securities as a collateral (the Group becomes their legal owner), but the borrower is entitled to coupon interest and dividends. During the years presented the Group did not sell or repledge any of the securities purchased under agreements to resell.

Loans and advances to customers in the amount of Euro 6,430,987 thousand (31 December 2008: Euro 6,649,946 thousand) are expected to be recovered after more than twelve months.

### b) Finance leases

Loans and advances to customers include finance lease receivables:

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| The gross investment in finance leases | | |
| • not later than 1 year | 225,541 | 223,937 |
| • later than 1 year and not later than 5 years | 362,290 | 459,293 |
| • later than 5 years | 122,668 | 154,486 |
| | **710,499** | **837,716** |
| Unearned future finance income on finance leases | (96,177) | (153,504) |
| **Net investment in finance leases** | **614,322** | **684,212** |
| The net investment in finance leases | | |
| • not later than 1 year | 197,869 | 179,736 |
| • later than 1 year and not later than 5 years | 311,694 | 382,255 |
| • later than 5 years | 104,759 | 122,221 |
| **TOTAL** | **614,322** | **684,212** |

The allowance for unrecoverable finance lease receivables included in the provision for loan losses amounted to Euro 38,645 thousand (31 December 2008: Euro 18,407 thousand).

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

Majority of the lease contracts are represented by finance lease agreements (operating lease represents less than 10%). The greater part of the leases runs for a non-cancellable period of 48 to 60 months with an unguaranteed residual value (purchase option) that generally lies between 1.6% and 2% of the gross investment.

Cases where the Group acts as the lessee are mostly represented by finance and operating leases of company vehicles and operating leases of premises.

## 6.9. Held to maturity investments

### a) Analysis by type of held to maturity investments

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Bonds of the Republic of Slovenia | 233,261 | 219,789 |
| Other bonds | 346,229 | 370,873 |
| **TOTAL** | **579,490** | **590,662** |

### b) Analysis of movements

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 590,662 | 479,211 |
| Additions | 55,309 | 189,319 |
| Maturity | (89,171) | (100,385) |
| Interest | 22,690 | 22,517 |
| **Balance at 31 December** | **579,490** | **590,662** |

As at 31 December 2009 and 31 December 2008 all held to maturity investments were quoted on a stock exchange.

Held to maturity investments in the amount of Euro 492,602 thousand (31 December 2008: Euro 510,116 thousand) have a remaining contractual maturity of more than twelve months.

## 6.10. Non-current assets held for sale

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 13,760 | 7,880 |
| Exchange difference on opening balance of subsidiaries | (21) | (13) |
| Additions | 19,162 | 7,891 |
| Transfer from/(to) property and equipment (note 6.11.) | 4,041 | (277) |
| Transfer (to) property investments (note 6.12.) | (890) | - |
| Disposals | (5,724) | (2,173) |
| Valuation | (1,666) | 452 |
| **Balance at 31 December** | **28,662** | **13,760** |

Non-current assets held for sale include business premises and apartments which are in the course of sale and assets received as collateral. The amount of non-current assets held for sale that the Group obtained by taking possession of collateral held as security and investment property and recognized them in the statement of financial position is Euro 23,140 thousand (31 December 2008: Euro 11,099 thousand).

The effects of valuation and sale are included in the income statement in the separate line Net (loss)/profit from non-current assets held for sale.

## 6.11. Property and equipment

| In thousand of euros | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land & Buildings | Leasehold Improvements | Computers | Furniture & Equipment | Motor Vehicles | Assets in Course of Transfer or Construction/ Implementation | Total |
| Cost | | | | | | | |
| At 1 January 2009 | 361,461 | 11,027 | 117,905 | 107,465 | 54,740 | 11,393 | 663,991 |
| Exchange differences on opening balances of subsidiaries | (3,737) | (29) | (344) | (602) | (65) | (76) | (4,853) |
| Additions | 16,162 | 1,283 | 7,680 | 10,865 | 15,300 | - | 51,290 |
| Disposals | (4,714) | (707) | (10,356) | (10,737) | (19,795) | (3,040) | (49,349) |
| Transfer to investment property (note 6.12.) | 1,190 | - | - | - | - | - | 1,190 |
| Transfer to/(from) non-current assets held for sale (note 6.10.) | (291) | - | - | - | 118 | (3,946) | (4,119) |
| Impairment (note 5.11.) | (8,367) | - | - | - | - | - | (8,367) |
| Transfer | 741 | (741) | (6) | 6 | - | - | - |
| **At 31 December 2009** | **362,445** | **10,833** | **114,879** | **106,997** | **50,298** | **4,331** | **649,783** |
| Depreciation | | | | | | | |
| At 1 January 2009 | 78,664 | 7,862 | 94,367 | 72,354 | 14,581 | - | 267,828 |
| Exchange differences on opening balances of subsidiaries | (208) | (7) | (236) | (259) | (39) | - | (749) |
| Disposals | (94) | (700) | (9,757) | (6,901) | (4,993) | - | (22,445) |
| Charge for the year (note 5.9.) | 9,125 | 1,079 | 9,791 | 9,610 | 8,237 | - | 37,842 |
| Transfer (from) investment property (note 6.12.) | (312) | - | - | - | - | - | (312) |
| Transfer (from) non-current assets held for sale (note 6.10.) | (78) | - | - | - | - | - | (78) |
| Impairment (note 5.11.) | (90) | - | - | - | - | - | (90) |
| Transfer | 566 | (566) | (3) | 3 | - | - | - |
| **At 31 December 2009** | **87,573** | **7,668** | **94,162** | **74,807** | **17,786** | **-** | **281,996** |
| Net carrying value | | | | | | | |
| **At 31 December 2009** | **274,872** | **3,165** | **20,717** | **32,190** | **32,512** | **4,331** | **367,787** |
| **At 1 January 2009** | **282,797** | **3,165** | **23,538** | **35,111** | **40,159** | **11,393** | **396,163** |

Due to the decline of market prices of property, the Group impaired the building in Frankfurt to its market price which represents the recoverable amount of the asset.

| In thousand of euros | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land & Buildings | Leasehold Improvements | Computers | Furniture & Equipment | Motor Vehicles | Assets in Course of Transfer or Construction/ Implementation | Total |
| Cost | | | | | | | |
| At 1 January 2008 | 340,121 | 12,043 | 111,868 | 99,078 | 51,562 | 8,836 | 623,508 |
| Exchange differences on opening balances of subsidiaries | (3,568) | 33 | (380) | (513) | (217) | (76) | (4,721) |
| Additions | 30,788 | 1,693 | 8,835 | 12,370 | 25,237 | 2,867 | 81,790 |
| Disposals | (5,811) | (759) | (2,418) | (5,453) | (21,842) | (234) | (36,517) |
| Transfer (from) investment property (note 6.12.) | (331) | - | - | - | - | - | (331) |
| Transfer to non-current assets held for sale (note 6.10.) | 262 | - | - | - | - | - | 262 |
| Transfer | - | (1,983) | - | 1,983 | - | - | - |
| **At 31 December 2008** | **361,461** | **11,027** | **117,905** | **107,465** | **54,740** | **11,393** | **663,991** |
| Depreciation | | | | | | | |
| At 1 January 2008 | 71,624 | 7,706 | 84,969 | 68,429 | 10,263 | - | 242,991 |
| Exchange differences on opening balances of subsidiaries | (213) | 7 | (240) | (151) | (72) | - | (669) |
| Disposals | (670) | (681) | (2,195) | (4,640) | (3,791) | - | (11,977) |
| Charge for the year (note 5.9.) | 8,072 | 1,025 | 11,833 | 8,521 | 8,181 | - | 37,632 |
| Transfer (from) investment property (note 6.12.) | (134) | - | - | - | - | - | (134) |
| Transfer to non-current assets held for sale (note 6.10.) | (15) | - | - | - | - | - | (15) |
| Transfer | - | (195) | - | 195 | - | - | - |
| **At 31 December 2008** | **78,664** | **7,862** | **94,367** | **72,354** | **14,581** | **-** | **267,828** |
| Net carrying value | | | | | | | |
| **At 31 December 2008** | **282,797** | **3,165** | **23,538** | **35,111** | **40,159** | **11,393** | **396,163** |
| **At 1 January 2008** | **268,497** | **4,337** | **26,899** | **30,649** | **41,299** | **8,836** | **380,517** |

Assets leased under finance leases as at 31 December 2009 amounted to Euro 245 thousand for motor vehicles (31 December 2008: Euro 296 thousand), Euro 1,192 thousand for land (31 December 2008: Euro 1,183 thousand) and Euro 36 thousand for other equipment (31 December 2008: Euro 52 thousand).

The amount of property and equipment that the Group obtained by taking possession of collateral held as security and recognized them in the statement of financial position is Euro 7 thousand (31 December 2008: Euro 7 thousand).

## 6.12. Investment property

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 22,241 | 21,460 |
| Exchange differences on opening balances of subsidiaries | (44) | (49) |
| Additions | 10,489 | 628 |
| Disposals | (5,969) | (322) |
| Transfer (to)/from property and equipment (note 6.11.) | (1,502) | 197 |
| Transfer from non-current assets held for sale (note 6.10.) | 890 | - |
| Net valuation to fair value (note 5.6. and 5.7.) | 7 | 327 |
| **Balance at 31 December** | **26,112** | **22,241** |

The Group has no property interests held under operating leases classified and accounted for as investment property. In the income statement for 2009, the amount of direct operating expenses arising from investment properties was Euro 103 thousand (31 December 2008: Euro 100 thousand).

The value of investment property that the Group obtained by taking possession of collateral held as security and recognized them in the statement of financial position is Euro 890 thousand (31 December 2008: Euro 237 thousand).

## 6.13. Intangible assets

| In thousand of euros | 2009 | | | |
|---|---|---|---|---|
| | Software licenses | Goodwill | Other intangible asset - customer relationship | Total |
| Cost | | | | |
| At 1 January 2009 | 164,707 | 32,790 | 79,664 | 277,161 |
| Exchange differences on opening balances of subsidiaries | (235) | - | - | (235) |
| Additions | 12,820 | - | - | 12,820 |
| Disposals | (939) | - | - | (939) |
| Impairments (note 5.11.) | - | (1,136) | (8,618) | (9,754) |
| Write offs | (2,791) | - | - | (2,791) |
| **At 31 December 2009** | **173,562** | **31,654** | **71,046** | **276,262** |
| Amortization | | | | |
| At 1 January 2009 | 72,856 | - | 14,331 | 87,187 |
| Exchange differences on opening balances of subsidiaries | (139) | - | - | (139) |
| Disposals | (829) | - | - | (829) |
| Charge for the year (note 5.9.) | 19,439 | - | 5,508 | 24,947 |
| Write offs | (2,725) | - | - | (2,725) |
| **At 31 December 2009** | **88,602** | **-** | **19,839** | **108,441** |
| Net carrying value | | | | |
| **At 31 December 2009** | **84,960** | **31,654** | **51,207** | **167,821** |
| **At 1 January 2009** | **91,851** | **32,790** | **65,333** | **189,974** |

In 2009 the Group recorded an impairment of goodwill in amount of Euro 1,136 thousand. The recoverable amount of cash-generating unit, that includes impaired goodwill, was based on value in use calculation, including the following assumptions:

- A financial budget for a three-year period, approved by the Management Board and Supervisors;
- Extrapolation of confirmed budgets for a five-year period taking into account the growth rate;
- A growth rate of the cash flow for residual period of 3% - 3.5%;
- A discount rate of 13.8% - 17%;
- Target capital ratios of an individual bank between 12% to 15%.

The financial budgets of individual companies are based on previous experiences and assessment of future economic conditions that will impact an individual bank's business and the quality of the credit portfolio. The discount rates used are based on assessment of general and specific risk that an individual bank's business is exposed to. The discount rates are calculated on the basis of the CAPM model.

Majority of impact relates to effects derived from financial crisis, larger impairment provisions, higher interest rates on deposits, large decline in GDP for Balkans region, change in capital regulation which requires additional capital increases or results in smaller dividend payment.

In the 2009 the Group also impaired additionally identified intangible assets (customer relationship). Impairment in amount of Euro 8,618 thousand (in 2008: nil) was recorded. Impairment is a consequence of lower recoverable amount as well as lower profitability of identified customer relationships.

| In thousand of euros | 2008 | | | |
|---|---|---|---|---|
| | Software licenses | Goodwill | Other intangible asset - customer relationship | Total |
| Cost | | | | |
| At 1 January 2008 | 155,395 | 32,981 | 79,664 | 268,040 |
| Exchange differences on opening balances of subsidiaries | (175) | - | - | (175) |
| Additions | 17,643 | - | - | 17,643 |
| Disposals | (1,190) | - | - | (1,190) |
| Impairments (note 5.11.) | - | (191) | - | (191) |
| Write offs | (6,966) | - | - | (6,966) |
| **At 31 December 2008** | **164,707** | **32,790** | **79,664** | **277,161** |
| Amortization | | | | |
| At 1 January 2008 | 56,586 | - | 8,823 | 65,409 |
| Exchange differences on opening balances of subsidiaries | (55) | - | - | (55) |
| Disposals | (308) | - | - | (308) |
| Charge for the year (note 5.9.) | 20,020 | - | 5,508 | 25,528 |
| Write offs | (3,387) | - | - | (3,387) |
| **At 31 December 2008** | **72,856** | **-** | **14,331** | **87,187** |
| Net carrying value | | | | |
| **At 31 December 2008** | **91,851** | **32,790** | **65,333** | **189,974** |
| **At 1 January 2008** | **98,809** | **32,981** | **70,841** | **202,631** |

## 6.14. Investments in associated companies and joint ventures

### a) Analysis by type of investment in associated companies and joint ventures

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Banks | 89,343 | 85,100 |
| Other financial organizations | 15,801 | 14,913 |
| Enterprises | 5,376 | 5,266 |
| **TOTAL** | **110,520** | **105,279** |

The associated companies of the Group as at 31 December 2009 are:

| In thousand of euros | Nature of Business | Country of Incorporation | Total assets | Total liabilities | Equity as at 31 December 2009 | Profit for 2009 | Total revenue | Voting rights% |
|---|---|---|---|---|---|---|---|---|
| Banka Celje d.d., Celje | Banking | Republic of Slovenia | 2,559,083 | 2,360,210 | 198,873 | 6,771 | 145,783 | 49.42 |
| Adria Bank AG, Wien | Banking | Republic of Austria | 228,225 | 193,619 | 34,606 | 2,834 | 12,852 | 28.46 |
| Bankart d.o.o., Ljubljana | Card Processing | Republic of Slovenia | 15,727 | 3,148 | 12,579 | 635 | 18,890 | 39.44 |
| Skupna pokojninska družba d.d., Ljubljana | Insurance | Republic of Slovenia | 287,882 | 274,918 | 12,964 | 2,232 | 4,610 | 28.13 |
| ICJ d.o.o., Domžale* | Real Estate | Republic of Slovenia | 7,656 | 7,422 | 234 | 1 | 691 | 50 |
| Tekig Invest a.d. Beograd | Trading | Republic of Serbia | 296 | 180 | 116 | (48) | - | 24.61 |

The associated companies of the Group as at 31 December 2008 are:

| In thousand of euros | Nature of Business | Country of Incorporation | Total assets | Total liabilities | Equity as at 31 December 2009 | Profit for 2009 | Total revenue | Voting rights% |
|---|---|---|---|---|---|---|---|---|
| Banka Celje d.d., Celje | Banking | Republic of Slovenia | 2,413,466 | 2,224,782 | 188,684 | 11,409 | 161,151 | 49.42 |
| Adria Bank AG, Wien | Banking | Republic of Austria | 257,487 | 223,119 | 34,368 | 2,834 | 18,091 | 28.46 |
| Bankart d.o.o., Ljubljana | Card Processing | Republic of Slovenia | 15,881 | 3,898 | 11,983 | 559 | 18,069 | 39.44 |
| Skupna pokojninska družba d.d., Ljubljana | Insurance | Republic of Slovenia | 238,813 | 227,640 | 11,173 | 1,723 | 12,867 | 28.13 |
| ICJ d.o.o., Domžale* | Real Estate | Republic of Slovenia | 7,194 | 6,956 | 238 | 39 | 1,619 | 50 |
| Tekig Invest a.d. Beograd | Trading | Republic of Serbia | 500 | 149 | 350 | 45 | 19 | 24.61 |

* ICJ d.o.o., Domžale is not treated as a joint venture as there is no contractual agreement between shareholders for joint control.
Financial information derives from local official financial reports.

The jointly controlled companies of the Group as at 31 December 2009 are:

| In thousand of euros | Nature of Business | Country of Incorporation | Total assets | Total liabilities | Equity as at 31 December 2009 | Profit for 2009 | Total revenue | Voting rights% |
|---|---|---|---|---|---|---|---|---|
| NLB Vita d.d., Ljubljana | Insurance | Republic of Slovenia | 157,066 | 143,980 | 13,086 | 2,336 | 27,334 | 50 |
| Prvi Faktor Group, Ljubljana | Finance | Republic of Slovenia | 336,307 | 325,079 | 11,228 | 1,163 | 38,027 | 50 |

The jointly controlled companies of the Group as at 31 December 2008 are:

| In thousand of euros | Nature of Business | Country of Incorporation | Total assets | Total liabilities | Equity as at 31 December 2008 | Profit for 2008 | Total revenue | Voting rights% |
|---|---|---|---|---|---|---|---|---|
| NLB Vita d.d., Ljubljana | Insurance | Republic of Slovenia | 129,393 | 120,650 | 8,723 | 766 | 34,602 | 50 |
| Prvi Faktor Group, Ljubljana | Finance | Republic of Slovenia | 368,809 | 353,984 | 14,825 | 3,005 | 38,037 | 50 |

Financial information derives from local official financial reports.

### b) The movements on investments in associated companies and joint ventures comprise

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 105,279 | 104,549 |
| Exchange differences on opening balances | (108) | (226) |
| Increase of equity | - | 14,592 |
| Share of profits before tax | 8,112 | 10,564 |
| Share of tax | (1,893) | (2,545) |
| Net gains/(losses) not recognised in the income statement (note 6.4.c) | 4,268 | (16,017) |
| Dividends received | (5,149) | (5,664) |
| Other | 11 | 26 |
| **Balance at 31 December** | **110,520** | **105,279** |

In 2008 the Group increased its investments in Banka Celje by purchasing newly issued shares.

## 6.15. Other assets

### Analysis by type of assets

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Prepayments | 49,282 | 7,683 |
| Inventories | 19,917 | 10,904 |
| Receivables in the course of collection | 15,103 | 16,305 |
| Debtors | 13,455 | 15,985 |
| Deferred expenses | 8,980 | 5,606 |
| Claim for taxes and other dues | 6,841 | 7,339 |
| Assets, received as collateral | 4,829 | 1,429 |
| Fees and commissions due | 4,822 | 3,769 |
| Accrued fees and commissions | 488 | 324 |
| Other assets | 24,075 | 19,565 |
| | 147,792 | 88,909 |
| Allowance for impairment (note 6.16.b) | (10,568) | (14,868) |
| **TOTAL** | **137,224** | **74,041** |

All other assets, except for inventories and claims for taxes and other dues, are financial assets and are measured at amortized cost.

Receivables in the course of collection are temporary balances that, according to the functionality of the information support system, are transferred to the appropriate item of other assets within the next few days after the occurrence.

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

### a) Loans and advances to individuals

| In thousand of euros | 2009 | | | |
|---|---|---|---|---|
| | Granted overdrafts | Loans for houses and flats | Consumer loans | Other loans |
| Balance at 1 January 2009 | 18,208 | 37,621 | 30,558 | 17,398 |
| Exchange differences on opening balances of subsidiaries | (54) | (84) | (493) | (305) |
| Impairment (note 5.11.) | 3,999 | 8,812 | 24,787 | 2,303 |
| Write offs | (4,207) | (3,979) | (1,471) | (130) |
| Other | - | 281 | 5,154 | 763 |
| **Balance at 31 December 2009** | **17,946** | **42,651** | **58,535** | **20,029** |

| In thousand of euros | 2008 | | | |
|---|---|---|---|---|
| | Granted overdrafts | Loans for houses and flats | Consumer loans | Other loans |
| Balance at 1 January 2008 | 19,763 | 31,428 | 18,286 | 14,889 |
| Exchange differences on opening balances of subsidiaries | (19) | 42 | (484) | 3 |
| Impairment (note 5.11.) | (261) | 6,865 | 12,844 | 2,641 |
| Write offs | (1,275) | (714) | (88) | (135) |
| **Balance at 31 December 2008** | **18,208** | **37,621** | **30,558** | **17,398** |

## b) Loans and advances to legal entities and other assets

| In thousand of euros | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | Other financial assets |
| Balance at 1 January 2009 | 911 | 20,066 | 8,065 | 144,133 | 341,221 | 14,868 |
| Exchange differences on opening balances of subsidiaries | 3 | 33 | 5 | (1,741) | (874) | (94) |
| Impairment (note 5.11.) | 428 | 6,945 | 17,745 | 99,002 | 129,581 | 225 |
| Write offs | - | (438) | (18) | (1,206) | (14,623) | (5,189) |
| Other | - | - | - | - | 17,659 | 758 |
| **Balance at 31 December 2009** | **1,342** | **26,606** | **25,797** | **240,188** | **472,964** | **10,568** |

| In thousand of euros | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | Other financial assets |
| Balance at 1 January 2008 | 184 | 10,564 | 5,654 | 124,042 | 261,649 | 14,049 |
| Exchange differences on opening balances of subsidiaries | 28 | 1,164 | 9 | (161) | 711 | (101) |
| Impairment (note 5.11.) | 699 | 10,119 | 2,839 | 20,531 | 86,180 | 4,972 |
| Write offs | - | (1,781) | (437) | (279) | (7,319) | (4,052) |
| **Balance at 31 December 2008** | **911** | **20,066** | **8,065** | **144,133** | **341,221** | **14,868** |

## 6.17. Trading liabilities

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Derivatives, excluding hedges** | | |
| Future contracts | | |
| • currency futures | 13 | 22 |
| • interest rate futures | 11 | 429 |
| Forward contracts | | |
| • currency forward | 1,510 | 5,017 |
| • cross currency interest rate forward | 55 | 298 |
| • securities forward | 457 | 479 |
| Options | | |
| • currency options | 6,099 | 9,180 |
| • interest rate options | 1,573 | 1,782 |
| • securities options | 7,279 | 148 |
| Swap contracts | | |
| • currency swaps | 4,088 | 17,775 |
| • interest rate swaps | 31,771 | 27,818 |
| • cross currency interest rate swaps | 5,502 | 5,276 |
| **TOTAL** | **58,358** | **68,224** |

The notional amounts of derivative financial instruments are disclosed in note 6.27.d).

## 6.18. Deposits, borrowings and debt securities

### a) Deposits from banks and amounts due to customers

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Deposits on demand | | |
| • banks | 82,903 | 70,885 |
| • other customers | 3,921,528 | 3,793,374 |
| Other deposits | | |
| • banks | 283,354 | 493,226 |
| • other customers | 6,819,720 | 5,671,435 |
| **TOTAL** | **11,107,505** | **10,028,920** |

Deposits in the amount of Euro 1,248,302 thousand (31 December 2008: Euro 607,266 thousand) are expected to be settled after more than twelve months.

### b) Borrowings from banks and other customers

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Loans | | |
| • banks | 3,350,688 | 5,166,226 |
| • other customers | 140,543 | 82,311 |
| **TOTAL** | **3,491,231** | **5,248,537** |

Loans in the amount of Euro 1,843,873 thousand (31 December 2008: Euro 2,491,762 thousand) are expected to be settled after more than twelve months.

### c) Pledged assets

As at 31 December 2009 the Group has no pledged assets. As at 31 December 2008 the Group had pledged assets amounted to Euro 400,682 thousand with related liability amounted to Euro 400,518 thousand.

### d) Debt securities in issue

In July 2009 the Group successfully issued in international financial markets securities with the guarantee of the Republic of Slovenia. Securities were issued in the amount of Euro 1.5 billion with the coupon of 3.25% per year.

Debt securities in issue relate to issued bonds and are denominated in Euro (Euro 1,779,720 thousand) and in other currencies (Euro 327 thousand). 93.50% of them have fixed interest rates (31 December 2008: 59.1%) and 6.50% have floating interest rates (31 December 2008: 40.9%). As at 31 December 2009 debt securities in issue with carrying amount of Euro 1,766,708 thousand are quoted on active markets (31 December 2008: Euro 471,347 thousand) and debt securities in issue with carrying amount of Euro 13,339 thousand are not quoted on active markets (31 December 2008: Euro 22,304 thousand). Issued securities in the amount of Euro 1,734,668 thousand (31 December 2008: Euro 295,372 thousand) have remaining maturity of more than twelve months.

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

### e) Deposits and borrowings from the Central Banks

The Group also identified a pool of securities eligible for borrowings from the Central Bank. As at 31 December 2009 the amount of eligible securities is Euro 800,624 thousand (31 December 2008: Euro 554,915 thousand) and the counterparty liability of Euro 800,000 thousand (31 December 2008: 200.000 thousand) is presented within deposits and borrowings from the Central Bank. The Group has retained legal and economic ownership of these securities.

## 6.19. Subordinated liabilities

| In thousand of euros | | | | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|---|---|---|
| | Currency | Due date | Interest rate | Carrying amount | Nominal value | Carrying amount | Nominal value |
| **Subordinated loans** | | | | | | | |
| | EUR | 24.3.2011 | EURIBOR + 1.85% p.a. | 20,800 | 19,000 | 19,607 | 19,000 |
| | EUR | 30.12.2014 | 6 months EURIBOR + 5.1% p.a. to 22.03.2014, thereafter 6 months EURIBOR + 8.5% p.a. | 4,577 | 4,500 | 4,502 | 4,500 |
| | EUR | 14.6.2016 | EURIBOR + 0.45% p.a. to 14.6.2011, thereafter EURIBOR + 1.1% p.a. | 75,033 | 75,000 | 75,116 | 75,000 |
| | EUR | 2.6.2017 | 3 months EURIBOR + 0.48% p.a. to 27.6.2012, thereafter 3 months EURIBOR + 1.98% p.a. | 189,718 | 190,000 | 190,131 | 190,000 |
| | EUR | 30.6.2018 | 6 months EURIBOR + 4.2% p.a. to 22.09.2013, thereafter 6 months EURIBOR + 6.3% p.a. | 11,993 | 12,000 | 12,479 | 12,000 |
| | EUR | - | 3 months EURIBOR + 1.5% p.a. to 7.9.2011, thereafter 3 months EURIBOR + 2.25% p.a. | 100,148 | 100,000 | 100,330 | 100,000 |
| | EUR | - | 3 months EURIBOR + 0.95% p.a. to 24.7.2012, thereafter 3 months EURIBOR + 1.7% p.a. | 119,723 | 120,000 | 120,601 | 120,000 |
| **Subordinated securities** | | | | | | | |
| | EUR | 10.2.2011 | 4.5% | 5,200 | 5,000 | 5,200 | 5,000 |
| | EUR | 10.4.2012 | EURIBOR + 1.5% p.a. | 11,319 | 10,450 | 10,780 | 10,450 |
| | EUR | 25.2.2013 | 6 months EURIBOR + 1.4% p.a. | 12,612 | 12,500 | 12,789 | 12,500 |
| | EUR | 9.6.2013 | 7.0% | 50,596 | 48,963 | 50,525 | 48,963 |
| | EUR | 2.6.2014 | 3 months EURIBOR + 1.25% p.a. | - | - | 50,212 | 50,000 |
| | EUR | - | 3 months EURIBOR + 1.6% p.a. to 17.12.2014, thereafter 3 months EURIBOR + 3.1% p.a. | 100,096 | 100,000 | 100,201 | 100,000 |
| | EUR | - | 6 months EURIBOR + 1.68% p.a. to 15.7.2015, thereafter 6 months EURIBOR + 2.68% p.a. | 131,785 | 130,000 | 134,185 | 130,000 |
| **TOTAL** | | | | **833,600** | **827,413** | **886,658** | **877,413** |

In accordance with the Regulation on capital adequacy of banks and savings banks, subordinated long-term loans and issued subordinated securities are included in the Bank's Tier 2 capital as at 31 December 2009. The issued subordinated securities do not contain any provisions on conversion to capital or any other liabilities. In 2009 the Group did not issue any new subordinated liabilities.

Subordinated loans in the amount of Euro 120 millions and Euro 100 millions are hybrid instruments as defined with the Regulation on capital adequacy of banks and savings banks. The instrument can be repaid by the option of the Group, the withdrawal or redemption is first possible only after a minimum of five years and one day after issue and with prior approval of the Bank of Slovenia. Subordinated securities in the amount of Euro 130 million are quoted on the Luxemburg stock exchange and have the nature of innovative instrument. Their main characteristics are:

- The instrument is "bearer" type (entitle the holder).
- The instrument is perpetual and the Group has no obligation to repay the principal amount. The Group has the right to redeem bonds on each interest payment day after the 10 year period from the issuance day, in rare cases redemption in possible also after the period of 5 years but in both cases only with prior approval of the Bank of Slovenia.
- Interest is paid semi-annual in arrears.
- Payments from this instrument are non cumulative.
- They are able to absorb losses on a going-concern basis.
- They are subordinated to depositors, general creditors and subordinated debt instruments, which means that in case of the Bank's bankruptcy these instruments rank just above non-cumulative preference shares and ordinary shares.
- They are neither secured nor covered by a guarantee of the issuing bank or related entity or any other form of arrangement that legally or economically enhances the seniority of the claim.

- The withdrawal or redemption of the instruments by the issuing bank or the acceptance of the instrument as collateral for a claim is first possible only after a minimum of five years after the issue and with the prior approval of the Bank of Slovenia. The condition for approval is that the Group will replace the instruments with another form of capital of the same or better quality, unless the Bank of Slovenia determines that even without the innovative instruments the capital is more than adequate to the risk assumed by the Group and its commercial strategy. From the day it is withdrawn, redeemed or accepted as collateral an innovative instrument no longer meets the conditions for inclusion in the calculation of own funds.
- Proceeds must be immediately and unconditionally available to the issuing bank.
- In the event that the Group has no distributable profit, the Group must have the discretion of not paying out interest on innovative instruments and the Group must have full access to waived payments.
- Distributions can only be paid out of distributable items. Where the distributions are preset, they may not be reset based on the credit rating of the issuing bank.

Subordinated liabilities in the amount of Euro 825,877 thousand (31 December 2008: Euro 827,221 thousand) have remaining maturity of more than twelve months.

During the years presented there were no defaults on subordinated liabilities.

## 6.20. Provisions

### a) Analysis by type of provisions

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Provisions for guarantees and commitments (note 6.27.b) | 43,343 | 45,884 |
| Employee benefit provisions | 37,499 | 34,811 |
| Provisions for premiums from National Saving Scheme | 4,367 | 5,280 |
| Other provisions | 4,272 | 6,464 |
| **TOTAL** | **89,481** | **92,439** |

### b) Movements in provisions for guarantees and commitments

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 45,884 | 56,908 |
| Exchange differences on opening balances of subsidiaries | (209) | 131 |
| Provisions released (note 5.10.) | (2,332) | (11,155) |
| **Balance at 31 December** | **43,343** | **45,884** |

### c) Movements in employee benefit provisions

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 34,811 | 34,350 |
| Exchange differences on opening balances of subsidiaries | (72) | (86) |
| Provisions made (note 5.8.) | 11,171 | 8,930 |
| Provisions released (note 5.8.) | (114) | (395) |
| Utilized during year | (8,297) | (7,988) |
| **Balance at 31 December** | **37,499** | **34,811** |

Employee benefit provisions include jubilee bonuses, retirement indemnities, uncased annual leaves and termination benefits that are provided as a result of an offer made to employees in order to encourage retirements before the normal retirement date.

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

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 5,280 | 8,122 |
| Provision made (note 5.10.) | 1,810 | 14 |
| Utilized during year | (2,723) | (2,856) |
| **Balance at 31 December** | **4,367** | **5,280** |

According to the covenants of the National Saving Scheme, the Housing Fund of the Republic of Slovenia was required to contribute one monthly premium per year to all depositors of the Scheme. The Group is required to refund the invested premiums to the Housing Fund for all depositors that decide not to raise a loan after the conclusion of the Scheme, which is why the Group has formed a provision for the expected amount of such premiums.

### e) Movements in other provisions

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 6,464 | 7,849 |
| Exchange difference on opening balance of subsidiaries | (17) | (21) |
| Provisions made (note 5.10.) | 127 | 4,990 |
| Provisions released (note 5.10.) | (391) | (1,459) |
| Utilized during year | (1,911) | (4,895) |
| **Balance at 31 December** | **4,272** | **6,464** |

Other provisions in the amount of Euro 2,323 thousand (31 December 2008: Euro 4,067 thousand) relate to claims for additional interest relating to retail savings and deposits.

## 6.21. Deferred tax

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **Deferred tax assets** | | |
| Fair value of financial instruments | 23,874 | 16,508 |
| Employee benefit provisions | 3,216 | 3,833 |
| Tax losses | 3,237 | 3,441 |
| Revaluation of property and equipment | 2,666 | 2,475 |
| Impairment provisions | 8,803 | 3,394 |
| Other | 635 | - |
| **Total deferred tax assets** | **42,431** | **29,651** |
| | | |
| **Deferred tax liabilities** | | |
| Impairment provisions | 856 | 1,190 |
| Fair value of financial instruments | 8,569 | 246 |
| Depreciation and valuation of property and equipment | 2,095 | 364 |
| Fair value of property and equipment | - | 3,451 |
| **Total deferred tax liabilities** | **11,520** | **5,251** |
| | | |
| **Net deferred tax assets** | **31,950** | **27,058** |
| **Net deferred tax liabilities** | **(1,039)** | **(2,658)** |
| | | |
| **Included in the income statement for the current year** | **8,369** | **12,358** |
| • impairment provisions | 5,744 | 3,034 |
| • fair value of financial instruments | 709 | 10,005 |
| • employee benefit provision | (615) | (1,492) |
| • depreciation and valuation of property and equipment | 1,896 | 669 |
| • other | 635 | 142 |
| | | |
| **Included to equity in the current year** | **(1,668)** | **3,943** |
| • valuation of available for sale financial assets (note 6.4.c) | (1,794) | 2,839 |
| • cash flow hedges (note 6.5.c) | 121 | 1,090 |
| • other | 5 | 14 |

Expenses from adjustment of deferred tax receivables to lower tax rate in 2009 amounted to Euro 1,158 thousand (2008: Euro 707 thousand).

## 6.22. Tax effects relating to each component of other comprehensive income

| In thousand of euros | 2009 | | |
|---|---|---|---|
| | Before tax amount | Tax (expense)/benefit | Net of tax amount |
| Available for sale financial assets | 30,157 | (1,794) | 28,363 |
| Cash flow hedge | (830) | 121 | (709) |
| Exchange differences on translating foreign operations | (982) | - | (982) |
| Share of associates and joint venture | 5,390 | (1,122) | 4,268 |
| **TOTAL** | **33,735** | **(2,795)** | **30,940** |

| In thousand of euros | 2008 | | |
|---|---|---|---|
| | Before tax amount | Tax (expense)/benefit | Net of tax amount |
| Available for sale financial assets | (25,607) | 2,839 | (22,768) |
| Cash flow hedge | (5,157) | 1,090 | (4,067) |
| Exchange differences on translating foreign operations | 945 | - | 945 |
| Share of associates and joint venture | (20,316) | 4,299 | (16,017) |
| **TOTAL** | **(50,135)** | **8,228** | **(41,907)** |

## 6.23. Other liabilities

### Analysis by type of other liabilities

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Fees and commissions due | 37,814 | 1,311 |
| Suppliers | 23,238 | 25,510 |
| Accruals | 19,133 | 15,138 |
| Liabilities to traders for credit cards | 14,913 | 12,122 |
| Items in the course of payment | 14,622 | 17,093 |
| Accrued salaries | 11,037 | 11,529 |
| Factoring | 8,856 | 15,826 |
| Payment received in advance | 8,533 | 11,029 |
| Taxes payable | 5,532 | 4,936 |
| Other liabilities | 19,542 | 18,648 |
| **TOTAL** | **163,220** | **133,142** |

All other liabilities, except for taxes payable, are financial liabilities and are measured at amortized cost.

## 6.24. Share capital

As at 31 December 2009 subscribed capital amounts to Euro 74,328 thousand and it is divided into 8,905,952 ordinary shares. In 2008 the Bank increased subscribed capital with the issue of new ordinary shares. The Bank increased its subscribed capital by Euro 7,497 thousand by issuing 898,204 new shares, which represents 11.22% increase in subscribed capital. Prior to the issue of new shares, subscribed capital amounted to Euro 66,831 thousand and was divided into 8,007,748 shares.

The shares are no-par value. All shares are ordinary, freely transferable, with voting rights, issued in non-material form and registered in the accounts of shareholders at the Central Securities Clearing Corporation. All shares are of the same class and subscribed. Shareholders have the right to participate in the governance of the Bank, to receive dividends and they are entitled to part of the assets in the event of a winding-up of the Bank, as determined by law.

As at 31 December 2009 there were 1,998 shareholders (31 December 2008: 1,976) of which 272 are legal entities, 1,709 individuals and 17 non–residents. Compared to year-end 2008 the number of shareholders has increased by 22. 1 share is held by the Bank's subsidiary (31 December 2008: 1 share). The Bank has 34,924 treasury shares for which it has set aside reserves in the amount of Euro 2,048 thousand.

Pursuant to a decision of the Annual General Meeting the Bank paid in 2009 a dividend for 2008 of Euro 0.33 per share amounting to total dividend payment of Euro 2,927 thousand (2008: Euro 47,469 thousand).

## 6.25. Reserves

The share premium consists of paid up premiums in the amount of Euro 446,390 thousand (31 December 2008: Euro 446,390 thousand) and the revaluation of subscribed capital from previous years in the amount of Euro 49,205 thousand (31 December 2008: Euro 49,205 thousand).

Profit reserves represent retained earnings that were transferred to reserves in accordance with decisions of the Bank's Annual General Meeting.

## 6.26. Capital ratios

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| **REGULATORY CAPITAL** | **1,735,400** | **1,906,183** |
| **TIER I CAPITAL** | **1,176,617** | **1,284,755** |
| Paid up share capital | 74,328 | 74,328 |
| Treasury shares | (7,049) | (7,148) |
| Capital reserves (share premium) | 495,595 | 495,594 |
| Reserves and retained profit or loss | 644,205 | 729,786 |
| Non-controlling interest | 24,590 | 59,343 |
| Valuation differences eligible as Tier I capital - prudential filters | (13,062) | (3,686) |
| Innovative instruments subject to limit | 129,999 | 129,995 |
| Other deductions | (171,989) | (193,457) |
| • Intangible assets | (167,758) | (189,935) |
| • Other | (4,231) | (3,522) |
| **TIER II CAPITAL** | **662,974** | **721,180** |
| **DEDUCTION FROM TIER I AND TIER II CAPITAL** (equity investments in banks and financial institutions) | **(104,191)** | **(99,752)** |
| **CAPITAL REQUIREMENTS** | **1,299,750** | **1,294,044** |
| Total capital requirements for credit risk (standardised approach) | 1,156,497 | 1,173,905 |
| Capital requirement for settlement/delivery risk | 1,307 | 411 |
| Total capital requirements for position, foreign exchange and commodity risk | 44,969 | 30,770 |
| • Traded debt instruments | 5,446 | 5,964 |
| • Equity instruments | 24,701 | 12,010 |
| • Foreign exchange | 14,778 | 12,771 |
| • Commodities | 44 | 25 |
| Capital requirements for operating risk | 96,977 | 88,958 |
| **CAPITAL ADEQUACY RATIO** (in %) | **10.68** | **11.78** |

Capital adequacy and capital are monitored in conformity with the guidelines developed by the Basel Committee and European Community Directives, as implemented by the Bank of Slovenia. The required information on capital adequacy is filed with the Bank of Slovenia on a quarterly basis. The Bank of Slovenia requires each bank and banking group to maintain capital adequacy ratio at or above 8%. During the presented periods the Group complied with all of the externally imposed capital requirements to which it is subject.

Capital adequacy calculations are based upon the consolidated financial reports, prepared in line with the Regulation on the supervision on a consolidated basis, which differs from the consolidation made in line with IFRS. According to IFRS, all the group's subsidiaries, associates and joint ventures are included in consolidation: subsidiaries using the full consolidation method whereas associates and joint ventures using the equity method.

According to the Regulation on the supervision on a consolidated basis, insurance companies and pension funds (in case of NLB: NLB Nov penziski fond a.d., Skopje, NLB Nova penzija a.d., Beograd, Skupna pokojninska družba d.d., Ljubljana and NLB Vita d.d., Ljubljana) are completely excluded from the consolidated financial reports. Furthermore, joint ventures (in case of NLB: Prvi Faktor Group, Ljubljana) are included in consolidated reports using the proportional method of consolidation.

Characteristics of each capital components are determined in the Regulation on calculation of own funds of Banks and Savings Banks (Ur.l.RS 135/06 and 104/07). Tier II capital includes hybrid instruments, subordinated debt and innovative instruments exceeding the limitations for inclusion in Tier I capital, as well as available-for-sale revaluation reserve and adjustment to valuation of investment property. The extent of subordinated debt included in Tier II capital is gradually decreasing with 20% cumulative discount in the last five years before maturity.

In line with capital regulation, in 2008 the NLB Group also calculated the capital requirement for operational risk for the first time.

In the first half of the year 2009, call option on subordinated debt in amount of Euro 50 million was exercised.

## 6.27. Off-balance sheet liabilities

### a) Contingent liabilities and commitments

A documentary (and standby) letters of credit constitutes a definite undertaking of the issuing bank, provided that the stipulated documents are presented to the nominated or the issuing bank and that the terms and conditions of the credit are complied with:

- if the credit provides for sight payment – to pay at sight,
- if the credit provides for deferred payment – to pay on the maturity date determinable in accordance with the stipulations of the credit.

Such undertakings can also be issued for credits received in the form of confirmation. It is usually done at the request or authorization of the opening bank and consititutes a definite undertaking of the confirming bank, in addition to that of the issuing bank.

### b) Contractual amounts of the Group's off-balance sheet financial instruments

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Short-term guarantees | | |
| • financial | 324,005 | 273,366 |
| • service | 143,671 | 181,055 |
| Long-term guarantees | | |
| • financial | 354,630 | 442,117 |
| • service | 579,327 | 524,928 |
| Commitments to extend credit | 1,417,009 | 1,592,527 |
| Guaranteed and accepted bills | 54,267 | 53,297 |
| Letters of credit | 25,755 | 18,026 |
| Other | 69,663 | 84,434 |
| | 2,968,327 | 3,169,750 |
| | | |
| Provisions (note 6.20.b) | (43,343) | (45,884) |
| **TOTAL** | **2,924,984** | **3,123,866** |

Commitments to extend credit can be realized within one year. The Group has no financial guarantees, for which the first possible payment date would be later than within one year.

### c) Movement of called service guarantees

| In thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 2,916 | 3,055 |
| Exchange differences on opening balances of subsidiaries | (143) | (208) |
| Called guarantees | 3,383 | 2,144 |
| Paid guarantees | (4,623) | (2,075) |
| **Balance at 31 December** | **1,533** | **2,916** |

Fee income from all issued service guarantees amounted to Euro 7,405 thousand (2008: Euro 7,897 thousand).

### d) Analysis of derivative financial instruments by notional amounts

| In thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Short-term | Long-term | Short-term | Long-term |
| Other swaps | | | | |
| • currency swaps | 437,725 | 156 | 555,117 | 2,483 |
| • interest rate swaps | 1,290,452 | 3,665,740 | 268,886 | 1,340,767 |
| • cross currency interest rate swaps | 60,415 | 19,314 | 607 | 80,305 |
| Options | | | | |
| • currency options | 76,320 | 134,231 | 155,376 | 83,064 |
| • interest rate options | 10,000 | 163,996 | 100,000 | 217,704 |
| • securities options | 11,087 | 70,144 | 25,133 | 13,181 |
| Forward contracts | | | | |
| • currency forward | 102,647 | 147 | 177,754 | 10,789 |
| • cross currency interest rate forward | 150,164 | - | 70,000 | - |
| • securities forward | - | 30,223 | 19,615 | 6,346 |
| Futures | | | | |
| • currency futures | 15,687 | - | 8,204 | - |
| • interest rate futures | 1,823 | - | 10,458 | - |
| • commodities, shares | 293 | - | 163 | - |
| **TOTAL** | **2,156,613** | **4,083,951** | **1,391,313** | **1,754,639** |
| **TOTAL** | **6.240.564** | | **3.145.952** | |

Notional amounts of derivative financial instruments in statements that qualify for hedge accounting amount to Euro 3,101,134 thousand (31 December 2008: Euro 370,362 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

Fair values of derivative financial instruments are disclosed in notes 6.2., 6.5. and 6.17.

### e) Operating lease commitments

The future minimum lease payments under non cancellable building operating leases are as follows:

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Not later than one year | 5,699 | 3,211 |
| Later than one year and not later than five years | 17,744 | 9,899 |
| Later than five years | 4,145 | 3,037 |
| **TOTAL** | **27,588** | **16,147** |

### f) Operating lease income

Future minimum lease income:

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Not later than one year | 13,689 | 13,113 |
| Later than one year and not later than five years | 12,635 | 15,826 |
| Later than five years | 1,101 | 2,350 |
| **TOTAL** | **27,425** | **31,289** |

### g) Capital commitments

As at 31 December 2009 the Group had capital commitments in the amount of Euro 2,471 thousand (31 December 2008: Euro 2,006 thousand), of which within property and equipment an amount of Euro 1,896 thousand (31 December 2008: Euro 6,034 thousand) was in respect of the implementation of a new information technology system.

## 6.28. Funds managed on behalf of third parties

The Group manages assets totalling Euro 6,221,664 thousand (31 December 2008: Euro 6,018,765 thousand) on behalf of third parties. Assets managed on behalf of third parties are comprised of fiduciary activities in the amount of Euro 5,462,574 thousand (31 December 2008: Euro 5,184,105 thousand), difference in the amount of Euro 759,090 thousand (31 December 2008: Euro 834,660) relates to settlement and other services in the name and the account of third parties. Managed funds' assets are accounted for separately from those of the Group. Income and expenses of these funds are for the account of the respective fund and no liability falls on the Group in connection with these transactions. The Group is compensated for its services with fees. Commissions from these activities in 2009 amounted to Euro 5,632 thousand (2008: Euro 7,241 thousand), of which Euro 5,080 thousand (2008: Euro 6,673 thousand) relate to fiduciary activities (note 5.3.b) and the rest to settlement and other services in the name and the account of third parties.

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **ASSETS** | | |
| **Clearing or transaction account claims for client assets** | **5,443,864** | **5,142,433** |
| • from financial instruments | 5,443,825 | 5,142,349 |
| • receipt, processing and execution of orders | 71 | 210 |
| • custody services | 5,443,754 | 5,142,139 |
| • to Central Securities Clearing Corporation or bank settlement account for sold financial instrument | 39 | 84 |
| **Clients' money** | **18,710** | **41,672** |
| • at settlement account for client assets | 1,532 | 1,895 |
| • at bank transaction accounts | 17,178 | 39,777 |
| | | |
| **LIABILITIES** | | |
| **Clearing or transaction liabilities for client assets** | **5,462,574** | **5,184,105** |
| • to client from cash and financial instruments | 5,462,250 | 5,183,864 |
| • receipt, processing and execution of orders | 296 | 262 |
| • management of financial instruments portfolio | 1,112 | 1,954 |
| • custody services | 5,460,842 | 5,181,648 |
| • to Central Securities Clearing Corporation or bank settlement account for bought financial instrument | 61 | 84 |
| • to bank or settlement bank account for fees and costs etc. | 263 | 157 |

# 7. RISK MANAGEMENT OF THE GROUP

The Group's approach to risk management is the goal to achieve planned results with minimal risk taking and internal capital of the Group.

In the year 2009 a deepening of the financial crisis continued. The crisis was reflected in the loan activity of the Group, worsening the quality of its credit portfolio and liquidity problems of some important Group clients. Firms were faced with substantial decrease in demand and sales' income.

In order to avoid losses, the Group continues with its relatively conservative policy of managing credit risk. The latter encompasses a careful monitoring of clients as well as the approval of new investments only after obtaining quality collateral.

Regarding market risks the Group also continues to maintain a relatively conservative policy. The exposure of the Group to these risks is relatively small. Regarding structural liquidity the Group has formed an adequate level of liquidity reserves in the shape of first rate bonds, which allow for "repo" deals with the ECB or on the inter-bank market.

NLB regularly monitors and analyses exposures to risks on the Group level and takes appropriate actions if needed.

## 7.1. Credit risk management

In individual credit risk management, members of the Group in addition to local legislation and standards, reasonably consider NLB documents that define credit process, customer and advances classification, impairment of investments or making the provisions.

Members of the Group report quarterly to NLB the amount of credit exposure (by customers and rating system) and the amount of provisions made in accordance with local standards. For the purposes of preparing the consolidation they also calculate and report the amount of impairment losses and provisions in accordance with International Financial Reporting Standards. For this calculation the method prescribed by NLB is used.

The Group's credit portfolio includes statement of financial position items (loans, securities, interest, fees, commission, etc.) as well as off-balance sheet items (guarantees, letters of credits, commitments and contingencies, derivatives, etc.) towards corporate customers, banks, financial institutions, the public sector, entrepreneurs, retail customers and other customers. By entering into any of the above-mentioned transactions the Group exposes itself to credit risk, which is the risk that the counterparty will cause a financial loss for the Group by failing to discharge an obligation.

Prior to credit approval on entering into a contract, which exposes the Group to credit risk, every customer receives a rating and individual limit. The rating of a customer depends on its financial position, business performance, relationship with the Group to date and ability to provide sufficient finance to meet future obligations, also taking into account also country risk exposure.

The risk of individual credit is additionally considered in connection with the entire credit portfolio. Trends in movements, risks and concentrations of the credit portfolio as a whole and separately for different segments of customers and loans or advances are considered based on analyses of time series.

Impairment losses and provisions are measured in accordance with the International Financial Reporting Standards as adopted by the European Union, according to the risk of a loan and existence of objective signs of impairment. The amount of impairment loss is also influenced by the collateral if it represents a successful means of repaying the debt in the event of a customer's default. The majority of the loan portfolio is assessed for impairment on an individual basis and only a minor part of the exposure is reviewed in groups.

### a) Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, both by amount and term. The Group enters mostly into currency, interest rate and equity derivative contracts. Exposure derived from derivatives is mainly associated with NLB d.d., other members of the Group purchase derivatives only in order to hedge their own open positions. The amount subject to a credit risk is limited to the credit replacement value of the instrument that is determined in accordance with the regulations (based on the sum of current and potential exposure). This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

### b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers when required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of losses is less than total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### c) Group's internal rating system

| | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Loans and advances (%) | Impairment provision (%) | Loans and advances (%) | Impairment provision (%) |
| A | 55.02 | 0.70 | 59.20 | 0.69 |
| B | 27.08 | 4.13 | 29.16 | 3.59 |
| C | 10.29 | 10.54 | 7.98 | 12.34 |
| D and E | 7.61 | 46.61 | 3.66 | 48.79 |
| **TOTAL** | **100.00** | | **100.00** | |

Credit rating reflects the credit quality of the customer, whose exposure is derived from a financial instrument. Credit rating A stands for a first-class customers, who are not expected to encounter difficulties in repaying their obligations. Credit rating B indicates customers with a somewhat worse financial position, which is temporary in nature and does not anticipate difficulties in repaying the obligations. The rating C indicates customers, that are undercapitalized and highly indebted or those customers that generally do not generate sufficient cash flow to repay the obligations, so they may encounter repayment delays. Ratings D and E indicate the clients with evident financial difficulties or those who are in the process of compulsory settlement or bankruptcy; it is expected that these clients will not be able to repay most or even any of their obligations from their operating cash-flow. Customers with credit standing of C or worse must provide first-rate collateral to cover their exposure in the amount of credit replacement value.

### d) Maximum exposure to credit risk before collateral held or other credit enhancements

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| | Maximum exposure | Maximum exposure |
| Cash and balances with Central Banks | 996,264 | 830,892 |
| Loans to government | 153,616 | 117,008 |
| Loans to banks | 1,525,317 | 1,096,961 |
| Loans to financial organizations | 459,904 | 564,998 |
| Loans to individuals | | |
| • Granted overdrafts | 215,347 | 195,310 |
| • Loans for houses and flats | 1,148,493 | 971,857 |
| • Consumer loans | 1,041,523 | 1,189,608 |
| • Other loans | 390,122 | 411,938 |
| Loans to other customers | | |
| • Loans to large corporate customers | 4,144,339 | 4,245,135 |
| • Loans to small and medium size enterprises | 4,779,574 | 5,221,076 |
| Trading assets | 289,801 | 392,786 |
| Available for sale financial assets | 2,672,165 | 2,129,365 |
| Held to maturity investments | 579,490 | 590,662 |
| Other assets | 98,499 | 44,510 |
| Contingent liabilities and commitments | 2,924,984 | 3,123,866 |

Maximum exposure to credit risk represents a worst case scenario relating to credit risk exposure, which is the maximum possible loss of the Group without taking into account any of collateral held. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position and for off-balance sheet items they are based on nominal values.

According to internal methodology for loan impairment, all individually significant customers are individually assessed for impairment. This represents almost 80% (2008: 86%) of all corporate customers and entrepreneurs and all banks.

In the previous years in-depth analyses of customers and due risk management assured high quality of the credit portfolio. In the year 2009 the credit portfolio quality worsened due to the financial crisis. That caused the increase in impairment and credit loss provisions for clients that were assessed on the portfolio level – increase of incurred but not reported losses - as well as for clients that were individually assessed, as a result of lower expected repayments. Because of that the coverage of the portfolio with allowances for impairment has been increasing and has stabilized at 5.6% (31 December 2008: 3.8%) at the end of 2009. 82.1% (31 December 2008: 88%) of the portfolio is considered as quality portfolio (A and B ratings).

## e) Loans and advances neither past due nor impaired

| In thousand of euros | 31.12.2009 | | | |
|---|---|---|---|---|
| | A | B | C | D and E |
| Loans to government | 65,100 | - | - | - |
| Loans to banks | 1,118,762 | 38,578 | 14,045 | - |
| Loans to financial organizations | 116,389 | 5,560 | - | 1 |
| Loans to individuals | | | | |
| • Granted overdrafts | 2,502 | 4,521 | 16 | 1 |
| • Loans for houses and flats | 111,549 | 739 | 151 | 102 |
| • Consumer loans | 62,150 | 1,184 | 218 | 5 |
| • Other loans | 106,530 | 7,646 | 386 | 81 |
| Loans to other customers | | | | |
| • Loans to large corporate customers | 749,024 | 74,901 | 25,556 | 4,303 |
| • Loans to small and medium size enterprises | 286,672 | 120,971 | 45,835 | 29,316 |
| Other assets | 31,267 | 14,680 | 36,768 | 105 |
| **TOTAL** | **2,649,945** | **268,780** | **122,975** | **33,914** |

| In thousand of euros | 31.12.2008 | | | |
|---|---|---|---|---|
| | A | B | C | D and E |
| Loans to government | 90,651 | 86 | - | - |
| Loans to banks | 759,496 | 87,419 | 19,855 | 1,806 |
| Loans to financial organizations | 135,059 | 24,778 | 10,053 | - |
| Loans to individuals | | | | |
| • Granted overdrafts | 5,616 | 3,190 | 37 | 41 |
| • Loans for houses and flats | 109,727 | 22,715 | 164 | 301 |
| • Consumer loans | 76,959 | 12,050 | 90 | 215 |
| • Other loans | 216,780 | 45,438 | 1,638 | 545 |
| Loans to other customers | | | | |
| • Loans to large corporate customers | 1,087,707 | 165,422 | 9,063 | 762 |
| • Loans to small and medium size enterprises | 747,231 | 464,512 | 65,408 | 8,999 |
| Other assets | 27,537 | 1,907 | 17 | 374 |
| **TOTAL** | **3,256,763** | **827,517** | **106,325** | **13,043** |

## f) Loans and advances past due but not impaired

| In thousand of euros | 31.12.2009 | | | | |
|---|---|---|---|---|---|
| | Up to 30 days | Up to 90 days | Over 90 days | Total | Fair value of collateral |
| Loans to government | 352 | 77 | - | 429 | 71 |
| Loans to banks | 35 | - | - | 35 | - |
| Loans to financial organizations | 28,613 | - | - | 28,613 | 27,642 |
| Loans to individuals | | | | | |
| • Granted overdrafts | 246 | 409 | - | 655 | 23 |
| • Loans for houses and flats | 11,508 | 6,671 | 2,009 | 20,188 | 75,415 |
| • Consumer loans | 8,105 | 3,456 | 768 | 12,329 | 40,760 |
| • Other loans | 19,693 | 15,156 | 8,463 | 43,312 | 88,172 |
| Loans to other customers | | | | | |
| • Loans to large corporate customers | 18,292 | 6,550 | 5,017 | 29,859 | 47,721 |
| • Loans to small and medium size enterprises | 60,678 | 48,124 | 72,598 | 181,400 | 343,806 |
| Other assets | 1,609 | 1,033 | 976 | 3,618 | 1,051 |

Table includes gross amounts of loans and advances.

| In thousand of euros | 31.12.2008 | | | | |
|---|---|---|---|---|---|
| | Up to 30 days | Up to 90 days | Over 90 days | Total | Fair value of collateral |
| Loans to government | - | - | - | - | - |
| Loans to banks | 6,890 | 71 | 242 | 7,203 | 46,078 |
| Loans to financial organizations | 992 | 1,816 | 39 | 2,847 | 2,535 |
| Loans to individuals | | | | | |
| • Granted overdrafts | 455 | 217 | 2,564 | 3,236 | - |
| • Loans for houses and flats | 25,405 | 10,347 | 3,333 | 39,085 | 85,225 |
| • Consumer loans | 11,022 | 6,125 | 4,470 | 21,617 | 21,231 |
| • Other loans | 20,189 | 19,866 | 13,256 | 53,311 | 63,980 |
| Loans to other customers | | | | | |
| • Loans to large corporate customers | 17,113 | 23,717 | 22,999 | 63,829 | 132,950 |
| • Loans to small and medium size enterprises | 112,914 | 62,557 | 100,606 | 276,077 | 498,398 |
| Other assets | 305 | 1,634 | 1,039 | 2,978 | - |

The Group accepts different types of collateral to mitigate credit risk. The decision about the type and value of collateral depends on customer's analysis. The Group is trying to receive high quality collateral, which among other things also strengthen the Group's capital and results in lower allowances for loan losses.

Long-term loans in particular are collateralized, mostly with mortgages and charges over business assets such as premises, inventory and accounts receivable. The value of collateral is regularly reviewed and in the event of its decrease the Group requires that the customer provides additional collateral.

## g) Impaired loans and advances

| In thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Individually impaired loans | Fair value of collateral | Individually impaired loans | Fair value of collateral |
| Loans to government | 86,945 | 24,419 | 26,264 | 14,295 |
| Loans to banks | 303,421 | 62,612 | 159,313 | 51,374 |
| Loans to financial organizations | 212,049 | 175,050 | 384,845 | 324,102 |
| Loans to individuals | | | | |
| • Granted overdrafts | 3,115 | 4,729 | 10 | - |
| • Loans for houses and flats | 45,575 | 124,501 | 2,146 | 2,853 |
| • Consumer loans | 63,398 | 125,569 | 1,457 | 728 |
| • Other loans | 40,354 | 91,967 | 8,096 | 7,157 |
| Loans to other customers | | | | |
| • Loans to large corporate customers | 1,539,979 | 2,053,233 | 2,468,095 | 2,628,048 |
| • Loans to small and medium size enterprises | 2,123,767 | 3,808,021 | 2,570,138 | 2,750,060 |
| **TOTAL** | **4,418,603** | **6,470,101** | **5,620,364** | **5,778,617** |

## h) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue.

Renegotiated loans that would otherwise be past due or impaired totalled Euro 731,888 thousand as at 31 December 2009 (31 December 2008: Euro 451,510 thousand).

## i) Repossessed property

The Group obtained assets by taking possession of collateral (value at cost) held as security and recognized it in its statement of financial position, as follows:

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Nature of assets** | Carrying amount | |
| Securities (note 6.4.b) | 156,756 | - |
| Non-current assets held for sale (note 6.10.) | 23,140 | 11,099 |
| Investment property (note 6.12.) | 890 | 237 |
| Property and equipment (note 6.11.) | 7 | 7 |
| Other assets (note 6.15.) | 4,829 | 1,429 |
| **TOTAL** | **185,622** | **12,772** |

## j) Analysis of loans and advances by industry sectors

| In thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| **Industry sector** | Net loans | (%) | Net loans | (%) |
| Banks | 1,525,317 | 11.01 | 1,096,961 | 7.83 |
| Financial organizations | 366,644 | 2.65 | 426,082 | 3.04 |
| Electricity, gas and water | 164,834 | 1.19 | 162,191 | 1.16 |
| Construction industry | 1,178,649 | 8.51 | 1,125,067 | 8.03 |
| Heavy industry | 1,997,587 | 14.41 | 2,152,820 | 15.36 |
| Education | 11,944 | 0.09 | 21,995 | 0.16 |
| Agriculture, forestry and fishing | 148,797 | 1.07 | 152,222 | 1.09 |
| Public sector | 201,445 | 1.45 | 164,686 | 1.18 |
| Individuals | 2,795,485 | 20.17 | 2,768,713 | 19.76 |
| Mining | 105,886 | 0.76 | 86,615 | 0.62 |
| Entrepreneurs | 202,048 | 1.46 | 242,207 | 1.73 |
| Services | 2,057,742 | 14.85 | 2,337,474 | 16.68 |
| Transport and communications | 1,344,117 | 9.70 | 1,313,748 | 9.37 |
| Trade industry | 1,726,388 | 12.46 | 1,925,502 | 13.74 |
| Health care and social security | 31,352 | 0.23 | 37,608 | 0.27 |
| **TOTAL** | **13,858,235** | **100.00** | **14,013,891** | **100.00** |

## k) Analysis of loans and advances by geographical sectors

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Country** | | |
| Republic of Slovenia | 8,427,361 | 8,788,651 |
| European Union | 1,688,354 | 1,252,229 |
| Other countries | 3,742,520 | 3,973,011 |
| **TOTAL** | **13,858,235** | **14,013,891** |

## l) Analysis of debt securities, treasury bills, other eligible bills and derivative financial instruments by geographical sectors

| In thousand of euros | 31.12.2009 | | | | 31.12.2008 | | | |
|---|---|---|---|---|---|---|---|---|
| **Country** | Trading assets | Available for sale financial assets | Held to maturity investments | Derivative financial instruments | Trading assets | Available for sale financial assets | Held to maturity investments | Derivative financial instruments |
| Republic of Slovenia | 14,307 | 968,489 | 233,261 | 47,121 | 126,562 | 362,078 | 219,789 | 36,047 |
| European Union | 200,397 | 1,532,937 | 346,055 | 39,697 | 191,983 | 1,605,328 | 370,611 | 17,259 |
| Other countries | 8,356 | 170,739 | 174 | 8,626 | 13,216 | 161,959 | 262 | 15,814 |
| **TOTAL** | **223,060** | **2,672,165** | **579,490** | **95,444** | **331,761** | **2,129,365** | **590,662** | **69,120** |

## m) Internal rating of derivatives counterparties

| | 31.12.2009 | 31.12.2008 |
|---|---|---|
| | in % | in % |
| A | 95.36 | 89.04 |
| B | 4.55 | 7.56 |
| C | 0.09 | 3.40 |
| D and E | 0.00 | 0.00 |
| **TOTAL** | **100.00** | **100.00** |

No derivatives in the banking book are entered into with counterparties with an external rating less than AA. When derivatives are entered into on behalf of customers all such transactions are covered through back-to-back transactions involving third parties with an external rating of AA or above.

## n) Debt securities in the Group's portfolio that represent subordinated liabilities for the issuer

| In thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Available for sale financial assets | 3,086 | 7,241 |
| Trading assets | 2,382 | 7,503 |
| **TOTAL** | **5,468** | **14,744** |

Securities in the amount of Euro nil (31 December 2008: Euro 4,813 thousand) represent subordinated bonds of domestic issuer with Fitch long-term Issuer Default Rating BBB.

Other issuers (Slovenian banks and financial institutions) do not have external ratings. Internally they are all rated as A, except for two issuers with B rating. Subordinated liabilities of the B rated issuer in the Group's portfolio amounted to Euro 3,086 thousand as at 31 December 2009 (31 December 2008: Euro 2,331 thousand).

# 7.2. Market risk management

In accordance with the regulations of the Bank of Slovenia NLB d.d. is the only bank which on the solo basis fulfils the conditions for assuring the necessary capital for market risk within the NLB Group. In accordance with Strategy for trading in Financial Instruments in the NLB Group, other Group members are not allowed to trade with financial instruments. They are only allowed to trade with them in order to service clients, to hedge their own positions and to maintain secondary liquidity reserves. Other members observe exposure to currency and interest risk as a consequence of structural movements and macro economical conditions in accordance with guidelines on risk management in the Group. Monitoring and managing exposure to market risks of the Group does not function on a consolidated level. Guidelines and exposure limits for each risk type are set for individual Group members. Members of the Group regularly monitor the exposure and report to the Asset/Liabilities Management Committee of NLB Group (ALCO of NLB Group).

Group members must adopt their market risk management policies. In accordance with their policies, they are obliged to monitor and manage exposures to market risks and report them to NLB. The policies of Group members must consider the local legislature and be in accordance with the Minimal standards for risk management within the NLB Group. The aforementioned document was accepted and adopted by the NLB Management Board. Methodologies concur with regulatory requirements on a solo and consolidated basis; current reporting to the regulator is carried out on a standardized principle.

### a) Capital markets summary

#### Slovenia

The Slovenian capital market we saw non-uniformity price movements, especially in the second half of previous year. The index achieved the highest level on 16 October 2009 at 4,633.4 points (to indicate +26.5% gain compared to the beginning of the year). The index completed previous year gradually lower and ending by 4,078.6 points, to signify 11.4% higher than the year before. Among stocks, included in SBI20, stocks of Zavarovalnica Triglav was the biggest gainers in 2009, posted 66.5% growth. On the prime market the clear winners were stocks of the pharmaceutical company Krka with 32.7% growth. Market capitalization, for both, prime and standard markets shares at the end of the year 2009 stood at Euro 8,461.7 million, presentation 3.4% more than at the end of 2008. One of the highlights of 2009 was the admission of the LJSE's first ever remote member (ecetra Central European e-Finance AG), which has enabled foreign investors direct access to the Slovene market.

Among the reasons why the Slovenian stock market returns were lower compared to the majority of other markets in 2009 are lessening improvements of Slovenian economic activity compared to those in the West, deteriorated results of Slovenian blue chips, anxiety what the future will bring and outperformance of the SBI20 index in previous years. According to the ATVP there were positive inflows in mutual funds in the second half of 2009 and from July to November positive inflows amounted to Euro 13.7 million.

The Gross Domestic Product (GDP) in Slovenia expanded at an annual rate of 1.00 percent in the third quarter of 2009. Industrial Production in Slovenia expanded 2.7% during the last surveyed month. Slovenia witnessed deflation over four months in 2009, with annual inflation amounting to 1.8%, which is 0.3 percentage points less than in 2008. The weaker macroeconomic picture of the national economy affected also affected the labour market. At the end of the year there were officially 96.672 unemployed people, the unemployment rate in Slovenia was 10.3% in December of 2009. Compared to December 2008 unemployment was higher by 45.9%.

#### World

Leading economists have called the Global Financial Crisis as the worst financial crisis since the one related to the Great Depression of the 1930s. It has contributed to the failure of key businesses, declines in consumer wealth estimated in the billions of Euros, substantial financial commitments incurred by governments, and a significant decline in economic activity. The collapse of the global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to housing prices to plummet thereafter, damaging financial institutions globally.

The International Monetary Fund (IMF) estimated that large U.S. and European banks lost more than Euro 1,000 billion on toxic assets and from bad loans from January 2007 to September 2009. These losses are expected to top Euro 2,000 billion from 2007 to 2010. This interrupted the ability of corporations to rollover (replace) their short-term debt. The governments responded by extending insurance for money market accounts analogous to bank deposit insurance via a temporary guarantee and with programs to purchase commercial paper. Total home equity in the United States, which was valued at Euro 9.000 billion at its peak in 2006, had dropped to Euro 6,000 billion by the end of 2008 and was still falling in 2009 (U.S. home mortgage debt relative to gross domestic product increased from an average of 46% during the 1990s to 73% during 2008). To offset this decline in consumption and lending capacity, the U.S. government and FED have committed Euro 10,000 billion. In effect, the FED has gone from being the "lender of last resort" to the "lender of only resort" for a significant portion of the economy. In some cases the FED was considered the "buyer of last resort." This was the largest liquidity injection into the credit market, and the largest monetary policy action in world history. In the post World War II era, the government has attacked recessions with an average fiscal stimulus of 2.6% of GDP and an average monetary stimulus of 0.3% of GDP, for a combined countercyclical lift of 2.9%. This time out, the fiscal stimulus is likely to measure 10% of GDP, monetary stimulus 9.5% of GDP, for a combined equivalent to 19.5% of GDP.

The underlying debt burden is greater than it was after the World War II. Even without fresh spending, public debt might explode within two years to 105% of GDP in the United Kingdom, 100% in the US and the eurozone, and more than 200% in Japan. Worldwide government debt would reach Euro 30,000 billion, up two-and-a-half times in a decade. An over-leveraged economy is one prone to deflation and stagnant growth. The household sector continued to pay down debt for the fourth consecutive quarter. Corporates also started to pay down debt sharply in Q2 2009 at a similar Euro 150 billion pace (only six of the 100 largest US bond issues in 2009 gave investment, capital expenditure or R&D as the reason for obtaining additional money. Instead, companies are mainly seeking to shore up their statement of financial position). The non-financial private sector paid down debt at a Euro 350 billion pace in same quarter. With continued private sector de-leveraging likely this year and beyond, relapse back into recession is not something that is not possible. Consumers (USA household debt as a percentage of annual disposable personal income was 127% at the end of 2007, versus 77% in 1990) will almost certainly keep on deleveraging from their debt (in 1981, U.S. private debt was 123% of GDP; by the end quarter of 2008, it was 290%).

It looks like all these massive governments spending helped world economy to grow again. Conditions in financial markets have generally improved in recent months. The rally that brought the stock market back from the brink in 2009 was one of the biggest ever. Markets achieved their lowest point on first half of March last year, since then they progressed at lightning speed. American broad equity index S&P 500 have gained more than 50% in Euro terms since then, DAX more than 55%, Nikkei more than 35%, Russian RTS even more than 140% year to date. From the beginning of this past March, bond mutual funds have received a net inflow of some Euro 150 billion. The comparable total for U.S. equity mutual funds is "just" Euro 7 billion, or less than 5% as much. Economic projections for the developed countries include a return to typical growth levels (GDP) of 2-3% in 2010; an unemployment around 10% with moderation in 2011.

### b) Value at Risk methodology

For the Group's exposure to market risks the VAR methodology is used. NLB presents the vast majority of the Group's market risks and is the only Group member that classifies financial instruments into trading book. Therefore the trading book includes financial instrument for trading and all other financial instruments are included in banking book. Therefore NLB is the only member of the Group which carries and manages market risk of trading book.

### Currency risk

The methodology of monitoring currency risk is based on the closing of open FX positions (see note 7.2.c) and nominal limits (for separate currencies and the whole open position).

For currency risk the Group uses an internal Value at Risk (VAR) model based on open FX positions. Calculation of the VAR value is adjusted to the Basel standards (99% confidence interval, monitored period of 300 business days, 10-day of holding a position) and based on the historical simulation method. VAR is calculated for exchange risk for the entire open position (position of trading and banking book together) because the position is managed at the whole level by the Treasury department.

The table below presents the currency VAR value by quarters in NLB Group.

| VAR In thousand of euros | 2009 | | |
|---|---|---|---|
| | Average VAR | Maximum VAR | Minimum VAR |
| Currency risk (trading book and banking book) | 9,486 | 10,978 | 8,026 |

| VAR In thousand of euros | 2008 | | |
|---|---|---|---|
| | Average VAR | Maximum VAR | Minimum VAR |
| Currency risk (trading book and banking book) | 8,748 | 9,747 | 7,889 |

### Other market risks in trading book

NLB as the only trading bank 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 of holding a position).

In 2009, the interest rate risk in the trading book on average amounted to Euro 453 thousand (year 2008: Euro 675 thousand). In 2009 the portfolio of debt securities decreased to Euro 20 million in terms of market value whereas the exposure form derivatives trading originated primarily from interest rate future contracts.

The equity risk in trading book in the year 2009 oscillated between Euro 3.4 million and 5.8 million (year 2008: from Euro 3.3 million and Euro 9.6 million) with the exception of July 2009 when the maximum value of VaR in the amount of Euro 7.8 million was reached. During this month the value of the strategic portfolio in trading book increased as received collateral for credit loans was realised by the Bank.

| VAR In thousand of euros | 2009 | | |
|---|---|---|---|
| | Average VAR | Maximum VAR | Minimum VAR |
| Interest rate risk in trading book | 453 | 966 | 108 |
| Equity risk in trading book | 4,814 | 7,786 | 3,386 |

| VAR In thousand of euros | 2008 | | |
|---|---|---|---|
| | Average VAR | Maximum VAR | Minimum VAR |
| Interest rate risk in trading book | 675 | 1,139 | 382 |
| Equity Risk in trading book | 3,254 | 9,627 | 3,254 |

The average, maximum and minimum values in the table above are calculated on the basis of daily VaR calculations based on daily open positions and the fluctuations of market data in the past monitored period (300 or 250 working days). The “average” value represents the arithmetic mean of daily VaR values in 2009 whereas the “maximum” and “minimum” values represent the largest and smallest values of daily VaR calculations in 2009 respectively.

### Interest rate risk in the banking book

Interest rate exposure is monitored and managed by using the methodology of interest rate gaps as a foundation for further analysis of interest rate sensitivity by individual time periods. On the basis of these the sensitivity of interest income is also measured.

The analysis assumes a parallel increase of short-term interest rates in the amount of 50 basis points and also assumes that the positions remain unchanged for the calculation.

The table shows an assessment arising from a change in interest rates for 50 basis points (+/- 0.5%) on the level of interest income for the banking book position:

| In thousand of euros | 2009 | | |
|---|---|---|---|
| | Average (assessment) | Minimum (assessment) | Maximum (assessment) |
| Interest income sensitivity | 2,716 | 1,769 | 3,698 |

| In thousand of euros | 2008 | | |
|---|---|---|---|
| | Average (assessment) | Minimum (assessment) | Maximum (assessment) |
| Interest income sensitivity | 1,114 | 580 | 2,201 |

### c) Currency Risk (FX)

### The amount of financial instruments denominated in Euros and in foreign currency

| In thousand of euros | 31.12.2009 | | | | |
|---|---|---|---|---|---|
| | EUR | USD | CHF | Other | Total |
| **FINANCIAL ASSETS** | | | | | |
| Cash and balances with Central Banks | 638,133 | 4,810 | 11,902 | 341,419 | 996,264 |
| Trading assets | 339,764 | 7,403 | 343 | 11,008 | 358,518 |
| Financial assets designated at fair value through profit and loss | 29,797 | - | - | - | 29,797 |
| Available for sale financial assets | 2,813,790 | 7,474 | - | 41,307 | 2,862,571 |
| Derivatives - hedge accounting | 28,703 | - | - | - | 28,703 |
| Loans and advances to banks | 1,227,281 | 213,484 | 21,092 | 63,460 | 1,525,317 |
| Loans and advances to customers | 11,164,697 | 54,775 | 383,294 | 730,152 | 12,332,918 |
| Held to maturity investments | 579,316 | - | - | 174 | 579,490 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 500 | - | - | - | 500 |
| Other assets | 81,800 | 495 | 2,204 | 14,000 | 98,499 |
| **TOTAL FINANCIAL ASSETS** | **16,903,781** | **288,441** | **418,835** | **1,201,520** | **18,812,577** |
| **FINANCIAL LIABILITIES** | | | | | |
| Deposits from Central Banks | 802,036 | - | - | - | 802,036 |
| Derivative financial instruments | 58,089 | - | - | 269 | 58,358 |
| Derivatives - hedge accounting | 32,916 | - | - | - | 32,916 |
| Deposits from banks | 310,426 | 31,327 | 15,101 | 9,403 | 366,257 |
| Borrowings from banks | 2,958,464 | 88,111 | 158,009 | 146,104 | 3,350,688 |
| Due to customers | 9,804,045 | 187,712 | 35,268 | 714,223 | 10,741,248 |
| Borrowings from other customers | 139,436 | - | - | 1,107 | 140,543 |
| Debt securities in issue | 1,779,720 | - | - | 327 | 1,780,047 |
| Subordinated liabilities | 833,600 | - | - | - | 833,600 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 26 | - | - | - | 26 |
| Other liabilities | 128,576 | 416 | 2,064 | 26,632 | 157,688 |
| **TOTAL FINANCIAL LIABILITIES** | **16,847,334** | **307,566** | **210,442** | **898,065** | **18,263,407** |
| **NET ON-BALANCE SHEET FINANCIAL POSITION** | **56,447** | **(19,125)** | **208,393** | **303,455** | **549,170** |
| Derivative financial instruments | 356,392 | (31,499) | (246,639) | (97,686) | (19,432) |
| 31.12.2008 | | | | | |
| **TOTAL FINANCIAL ASSETS** | **15,974,791** | **315,618** | **560,404** | **1,278,159** | **18,128,972** |
| **TOTAL FINANCIAL LIABILITIES** | **15,930,874** | **311,595** | **218,564** | **1,005,045** | **17,466,078** |
| **NET ON-BALANCE SHEET FINANCIAL POSITION** | **43,917** | **4,023** | **341,840** | **273,114** | **662,894** |
| Derivative financial instruments (Notional amounts) | 336,815 | 15,297 | (342,827) | (59,134) | (49,849) |

## Sensitivity analysis for currency risk

| In thousand of euros | 31.12.2009 | | | |
|---|---|---|---|---|
| | Effects on income statement | | Effects on equity | |
| | Appreciation of foreign currency | Depreciation of foreign currency | Appreciation of foreign currency | Depreciation of foreign currency |
| **Financial assets** | | | | |
| Loans and deposits | 97,298 | (79,563) | 45,887 | (38,115) |
| Securities | 2,359 | (1,856) | 1,075 | (1,013) |
| Other assets | 247 | (207) | 1,222 | (1,085) |
| **TOTAL FINANCIAL ASSETS** | **99,904** | **(81,626)** | **48,184** | **(40,213)** |
| **Financial liabilities** | | | | |
| Borrowings, deposits, debt securities in issue | (64,565) | 51,640 | (32,026) | 26,755 |
| Other liabilities | (203) | 173 | (1,605) | 1,349 |
| **TOTAL FINANCIAL LIABILITIES** | **(64,768)** | **51,813** | **(33,631)** | **28,104** |
| Derivative financial instruments | (24,713) | 27,130 | - | - |
| **Effects on profit/equity before tax** | **10,423** | **(2,683)** | **14,553** | **(12,109)** |

| In thousand of euros | 31.12.2008 | | | |
|---|---|---|---|---|
| | Effects on income statement | | Effects on equity | |
| | Appreciation of foreign currency | Depreciation of foreign currency | Appreciation of foreign currency | Depreciation of foreign currency |
| **Financial assets** | | | | |
| Loans and deposits | 162,390 | (125,880) | 68,163 | (52,214) |
| Securities | 5,404 | (4,014) | 2,776 | (2,504) |
| Other assets | 3,036 | (2,394) | 779 | (607) |
| **TOTAL FINANCIAL ASSETS** | **170,830** | **(132,287)** | **71,718** | **(55,325)** |
| **Financial liabilities** | | | | |
| Borrowings, deposits, debt securities in issue | (118,000) | 90,827 | (59,390) | 45,719 |
| Other liabilities | (337) | 262 | (2,362) | 1,796 |
| **TOTAL FINANCIAL LIABILITIES** | **(118,337)** | **91,090** | **(61,752)** | **47,515** |
| Derivative financial instruments | (38,319) | 31,352 | - | - |
| **Effects on profit/equity before tax** | **14,174** | **(9,846)** | **9,966** | **(7,810)** |

| **Scenarios** | 31.12.2009 | 31.12.2008 |
|---|---|---|
| USD | +/-13 % | +/-15 % |
| CHF | +/-6 % | +/-10 % |
| CZK | +/-12 % | +/-15 % |
| RSD | +/-8 % | +/-13 % |
| MKD | +/-2 % | +/-2 % |
| JPY | +/-16 % | +/-25 % |
| AUD | +/-14 % | +/-21 % |
| HUF | +/-16 % | +/-16 % |
| SKK | / | +/-4,5 % |
| HRK | +/-5 % | / |

## d) Interest rate risk

The management of interest rate exposure of the NLB Group has not been performed at the consolidated level; however, the Bank promptly monitors the risks of individual banks.

Orientations regarding the limitation and management of interest risks in individual banks, members of the NLB Group are in accordance with the orientations of the NLB Group Management Committee and with the Assets and Liabilities Committees of these banks.

Other member banks represent a small proportion and therefore do not have significant effect on the Group as a whole.

### Analysis of financial instruments according to the Group's exposure to interest rate risk

The tables below include the Group's financial instruments at carrying amounts, categorized by the earlier of contractual reprising or maturity dates.

| In thousand of euros | 31.12.2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Non interest bearing | Interest bearing | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and balances with Central Banks | 996,264 | 250,109 | 746,155 | 746,155 | - | - | - | - |
| Trading assets | 358,518 | 69,771 | 288,747 | 272,824 | 1,181 | 4,111 | 3,789 | 6,842 |
| Financial assets designated at fair value through profit and loss | 29,797 | 29,797 | - | - | - | - | - | - |
| Available for sale financial assets | 2,862,571 | 207,993 | 2,654,578 | 472,720 | 554,151 | 1,055,196 | 307,000 | 265,511 |
| Derivatives - hedge accounting | 28,703 | 28,703 | - | - | - | - | - | - |
| Loans and advances to banks | 1,525,317 | 7,324 | 1,517,993 | 1,024,120 | 317,842 | 161,938 | 9,343 | 4,750 |
| Loans and advances to customers | 12,332,918 | 152,843 | 12,180,075 | 3,862,475 | 3,316,495 | 3,809,293 | 928,630 | 263,182 |
| Held to maturity investments | 579,490 | 14,753 | 564,737 | 5,002 | 50,072 | 17,061 | 266,208 | 226,394 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 500 | 500 | - | - | - | - | - | - |
| Other assets | 98,499 | 98,499 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **18,812,577** | **860,292** | **17,952,285** | **6,383,296** | **4,239,741** | **5,047,599** | **1,514,970** | **766,679** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Deposits from Central Banks | 802,036 | 2,036 | 800,000 | 400,000 | - | 400,000 | - | - |
| Trading liabilities | 58,358 | - | 58,358 | 57,280 | 853 | - | 225 | - |
| Derivatives - hedge accounting | 32,916 | 32,916 | - | - | - | - | - | - |
| Deposits from banks | 366,257 | 474 | 365,783 | 301,822 | 63,263 | 518 | 180 | - |
| Borrowings from banks | 3,350,688 | 8,403 | 3,342,285 | 1,364,569 | 803,711 | 1,116,282 | 45,693 | 12,030 |
| Due to customers | 10,741,248 | 97,592 | 10,643,656 | 5,484,185 | 1,578,194 | 2,472,858 | 1,096,186 | 12,233 |
| Borrowings from other customers | 140,543 | 420 | 140,123 | 750 | 35,381 | 57,023 | 25,890 | 21,079 |
| Debt securities in issue | 1,780,047 | 26,014 | 1,754,033 | 23,923 | 54,200 | 57,353 | 1,540,154 | 78,403 |
| Subordinated liabilities | 833,600 | 5,053 | 828,547 | 130,000 | 156,440 | - | 278,238 | 263,869 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 26 | 26 | - | - | - | - | - | - |
| Other liabilities | 157,688 | 157,688 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **18,263,407** | **330,622** | **17,932,785** | **7,762,529** | **2,692,042** | **4,104,034** | **2,986,566** | **387,614** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(1,379,233)** | **1,547,699** | **943,565** | **(1,471,596)** | **379,065** |

| In thousand of euros | 31.12.2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Non interest bearing | Interest bearing | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and balances with Central Banks | 830,892 | 262,781 | 568,111 | 568,111 | - | - | - | - |
| Trading assets | 475,342 | 82,675 | 392,667 | 72,047 | 194,562 | 13,479 | 4,616 | 107,963 |
| Financial assets designated at fair value through profit and loss | 2,473 | 2,473 | - | - | - | - | - | - |
| Available for sale financial assets | 1,762,425 | 48,180 | 1,714,245 | 309,228 | 333,249 | 638,890 | 250,302 | 182,576 |
| Derivatives - hedge accounting | 8,095 | 8,095 | - | - | - | - | - | - |
| Loans and advances to banks | 1,096,961 | 4,990 | 1,091,971 | 658,075 | 202,252 | 213,262 | 17,849 | 533 |
| Loans and advances to customers | 12,916,930 | 153,981 | 12,762,949 | 5,551,333 | 2,353,817 | 3,499,942 | 1,080,522 | 277,335 |
| Held to maturity investments | 590,662 | 14,941 | 575,721 | 262 | 27,604 | 38,002 | 257,765 | 252,088 |
| Pledged assets | 400,682 | 2,080 | 398,602 | - | 89,761 | 308,841 | - | - |
| Other assets | 44,510 | 44,510 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **18,128,972** | **624,706** | **17,504,266** | **7,159,056** | **3,201,245** | **4,712,416** | **1,611,054** | **820,495** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Deposits from Central Banks | 201,314 | 1,312 | 200,002 | 200,002 | - | - | - | - |
| Trading liabilities | 68,224 | - | 68,224 | 68,224 | - | - | - | - |
| Derivatives - hedge accounting | 10,048 | 10,048 | - | - | - | - | - | - |
| Deposits from banks | 564,111 | 10,880 | 553,231 | 214,077 | 259,147 | 79,919 | 21 | 67 |
| Borrowings from banks | 5,166,226 | 17,097 | 5,149,129 | 1,803,987 | 1,806,192 | 1,503,608 | 31,003 | 4,339 |
| Due to customers | 9,464,809 | 164,603 | 9,300,206 | 5,417,779 | 1,204,535 | 2,159,657 | 490,309 | 27,926 |
| Borrowings from other customers | 82,311 | - | 82,311 | 1,450 | 18,590 | 11,785 | 18,761 | 31,725 |
| Debt securities in issue | 493,651 | 7,165 | 486,486 | 183 | 53,880 | 229,885 | 123,069 | 79,469 |
| Subordinated liabilities | 886,658 | 9,813 | 876,845 | 129,625 | 205,048 | - | 273,962 | 268,210 |
| Financial liabilities associated to transferred assets | 400,518 | 683 | 399,835 | - | 399,835 | - | - | - |
| Other liabilities | 128,208 | 128,208 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **17,466,078** | **349,809** | **17,116,269** | **7,835,327** | **3,947,227** | **3,984,854** | **937,125** | **411,736** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(676,271)** | **(745,982)** | **727,562** | **673,929** | **408,759** |

## Sensitivity analysis for interest rate risk

| In thousand of euros | 31.12.2009 | | | |
|---|---|---|---|---|
| | Effects on income | | Effects on equity | |
| | 1% | -1% | 1% | -1% |
| **Financial assets** | | | | |
| Loans and deposits | 78,576 | (78,576) | - | - |
| Securities | 4,843 | (4,843) | (17,850) | 17,850 |
| Other assets | 424 | (424) | - | - |
| **TOTAL FINANCIAL ASSETS** | **83,843** | **(83,843)** | **(17,850)** | **17,850** |
| **Financial liabilities** | | | | |
| Borrowings, deposits, debt securities in issue | (54,599) | 54,599 | - | - |
| Other liabilities | (3,143) | 3,143 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(57,742)** | **57,742** | **-** | **-** |
| **Effects on profit/equity before tax** | **26,101** | **(26,101)** | **(17,850)** | **17,850** |

| In thousand of euros | 31.12.2008 | | | |
|---|---|---|---|---|
| | Effects on income | | Effects on income | |
| | 1 % | -1 % | 1 % | -1 % |
| **Financial assets** | | | | |
| Loans and deposits | 100,434 | (100,434) | - | - |
| Securities | 4,194 | (4,194) | (17,250) | 17,250 |
| Other assets | 55 | (55) | - | - |
| **TOTAL FINANCIAL ASSETS** | **104,683** | **(104,683)** | **(17,250)** | **17,250** |
| **Financial liabilities** | | | | |
| Borrowings, deposits, debt securities in issue | (63,785) | 63,785 | - | - |
| Other liabilities | (1,112) | 1,112 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(64,897)** | **64,897** | **-** | **-** |
| **Effects on profit/equity before tax** | **39,786** | **(39,786)** | **(17,250)** | **17,250** |

## e) Liquidity risk

The fundamental bases and principles of liquidity risk management in the NLB Group are defined in the Liquidity Risk Management Strategy of the NLB Group.

The liquidity Risk Management Strategy in the NLB Group determines:
- a) competent and responsible persons/departments,
- b) criteria and plan for liquidity management of the Bank in normal and exceptional circumstances,
- c) the organizational aspect of liquidity risk management,
- d) criteria and levels of liquidity risk management, separately for banking and non-banking members,
- e) method and system of reporting.

The liquidity risk management in the NLB Group and its members pursues the following objectives:
- provide sufficient liquid assets for settling all overdue obligations of the bank;
- correctly plan the less predictable future and off-balance-sheet liabilities of the bank;
- optimise the balance of liquidity reserves, i.e. the ratio between safety and profitability;
- avoid the situation when the bank is forced to provide the necessary liquid assets at prices which are significantly higher than those on the market.

The NLB Group members are each completely authorised and responsible for its own liquidity risk management, for ensuring its own liquidity and complying with the local regulations on liquidity management. NLB d.d. is authorised and responsible for establishing a system which enables a centralised liquidity risk monitoring and measuring as well as for managing liquidity risk at the level of the NLB Group. When managing the liquidity risk, the NLB Group members must follow the guidelines of the NLB d.d. which apply to NLB Group members.

Pursuant to the Liquidity Risk Management Strategy in the NLB Group, both banking and non-banking members are obliged to monthly – or more frequently, if appropriate – draft and submit to NLB the following reports in the area of liquidity management:
- Planned cash flows by day for the period of the next 30 days,
- Annual liquidity plan by month,
- Regular monthly announcing of liquidity needs,
- Regular quarterly announcing of liquidity needs,
- Calculation of liquidity gaps for banking and non-banking members,
- Structural liquidity indicators,
- Cooperation of members in providing liquidity sources,
- Liquidity reserves of banking members,
- Alignment of cash flows by criterion of outstanding maturity for non-banking members of the NLB Group.

The members of the Group calculate structural liquidity ratios (concerning assets, liabilities and relationship among them) and their boundary values, which are liquidity indicator of structural disproportionate in managing liquidity. Limits, which are confirmed by management, are also established.

The Group's liquidity management process, as carried out within the Group and monitored by a special department, includes:
- Day to day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of financial assets.

The Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

### Non-derivative cash flows

The tables below present the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, prepared on the basis of spot rates at the statement of financial position date.

| In thousand of euros | 31.12.2009 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years | Total |
| **FINANCIAL LIABILITIES** | | | | | | |
| Deposits from Central Banks | - | 152 | 809,830 | - | - | 809,982 |
| Deposits from banks | 326,115 | 26,827 | 13,796 | 180 | - | 366,918 |
| Borrowings from banks | 178,036 | 211,146 | 1,275,621 | 1,311,913 | 505,335 | 3,482,051 |
| Due to customers | 5,574,368 | 1,572,591 | 2,474,517 | 1,328,368 | 39,608 | 10,989,452 |
| Borrowings from other customers | 5,805 | 6,341 | 29,192 | 95,180 | 40,325 | 176,843 |
| Debt securities in issue | 4,544 | 1,689 | 74,700 | 1,772,325 | 82,766 | 1,936,024 |
| Subordinated liabilities | 10,107 | 3,202 | 10,919 | 478,662 | 420,933 | 923,823 |
| Other liabilities and provisions | 95,325 | 13,794 | 6,493 | 85,181 | 238 | 201,031 |
| **TOTAL FINANCIAL LIABILITIES** | **6,194,300** | **1,835,742** | **4,695,068** | **5,071,809** | **1,089,205** | **18,886,124** |
| | | | | | | |
| **TOTAL FINANCIAL ASSETS** | **4,319,425** | **2,274,515** | **5,599,163** | **6,976,453** | **3,923,392** | **23,092,948** |

When determining the gap between the financial liabilities and financial assets in the maturity class up to 1 month, it is necessary to take into account the fact that financial liabilities include total sight deposits, and that the Bank may apply a stability weight of 50% to sight deposits when assuring compliance with the Central Bank regulations concerning the calculation of liquidity position. To assure Group liquidity and based on its conservative approach to risk, the Group has already in the preceding years compiled a substantial amount of high-quality liquidity placements, mostly government securities, which are assets accepted as adequate financial assets by the ECB and is also carrying out the activities to enter the selected adequate loans in the loan register kept by the Bank of Slovenia, which will allow the Group to pledge these loans in order to gain liquidity by using the ECB instruments.

| In thousand of euros | 31.12.2008 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years | Total |
| **FINANCIAL LIABILITIES** | | | | | | |
| Deposits from Central Banks | 201,898 | - | - | - | - | 201,898 |
| Deposits from banks | 221,176 | 262,742 | 87,632 | 51 | 74 | 571,675 |
| Borrowings from banks | 363,345 | 310,680 | 2,211,934 | 2,197,508 | 493,546 | 5,577,013 |
| Due to customers | 5,450,201 | 1,289,011 | 2,234,908 | 630,642 | 41,261 | 9,646,023 |
| Borrowings from other customers | 1,482 | 2,883 | 13,815 | 58,413 | 37,383 | 113,976 |
| Debt securities in issue | 6,924 | 2,058 | 207,394 | 251,378 | 86,968 | 554,722 |
| Subordinated liabilities | 9,212 | 7,040 | 81,613 | 469,846 | 574,586 | 1,142,297 |
| Financial liabilities associated to transferred assets | - | 400,518 | - | - | - | 400,518 |
| Other liabilities and provisions | 97,704 | 16,408 | 9,862 | 49,558 | 558 | 174,090 |
| **TOTAL FINANCIAL LIABILITIES** | **6,351,942** | **2,291,340** | **4,847,158** | **3,657,396** | **1,234,376** | **18,382,212** |
| | | | | | | |
| **TOTAL FINANCIAL ASSETS** | **3,282,264** | **2,910,995** | **4,136,237** | **6,578,349** | **3,687,912** | **20,595,757** |

Subordinated liabilities are included in the maturity group based on periods when the call options can be exercised according to the characteristics described in note 6.19.

## Derivative cash flows

The Group's derivatives are settled on a gross basis, except for certain interest rate swaps. The table below analyses the Group's derivative financial liabilities into relevant maturity groupings based on the remaining contractual maturity at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, prepared on the basis of spot rates, as at 31 December 2009.

| In thousand of euros | 31.12.2009 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 Month | 1 to 3 Months | 3 Months to 1 Year | 1 to 5 Years | Over 5 Years | Total |
| **FOREIGN EXCHANGE DERIVATIVES** | | | | | | |
| • Forwards | | | | | | |
| • Outflow | (23,801) | (40,945) | (48,855) | (156) | (4,706) | (118,463) |
| • Inflow | 27,701 | 44,891 | 45,652 | 147 | - | 118,391 |
| • Swaps | | | | | | |
| • Outflow | (144,260) | (161,676) | (131,749) | (147) | - | (437,832) |
| • Inflow | 144,529 | 160,792 | 131,882 | 156 | - | 437,359 |
| • Options | | | | | | |
| • Outflow | (5,648) | (15,781) | (69,678) | (102,576) | (41,778) | (235,461) |
| • Inflow | 2,832 | 32,286 | 97,343 | 102,576 | 31,833 | 266,870 |
| • Futures | | | | | | |
| • Outflow | - | (15,677) | - | - | - | (15,677) |
| • Inflow | - | 15,687 | - | - | - | 15,687 |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| • Interest rate swaps and cross-currency swaps | | | | | | |
| • Outflow | (8,298) | (56,033) | (79,518) | (235,996) | (154,796) | (534,641) |
| • Inflow | 4,798 | 48,896 | 90,128 | 220,151 | 160,087 | 524,060 |
| • Forwards | | | | | | |
| • Outflow | (1) | (45) | - | - | - | (46) |
| • Inflow | 6 | - | - | - | - | 6 |
| • Caps and floors | | | | | | |
| • Outflow | (58) | (51) | (883) | (595) | (11) | (1,598) |
| • Inflow | 62 | 53 | 897 | 612 | 11 | 1,635 |
| **TOTAL OUTFLOW** | **(182,066)** | **(290,208)** | **(330,683)** | **(339,470)** | **(201,291)** | **(1,343,718)** |
| **TOTAL INFLOW** | **179,928** | **302,605** | **365,902** | **323,642** | **191,931** | **1,364,008** |

| In thousand of euros | 31.12.2008 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 Month | 1 to 3 Months | 3 Months to 1 Year | 1 to 5 Years | Over 5 Years | Total |
| **FOREIGN EXCHANGE DERIVATIVES** | | | | | | |
| • Forwards | | | | | | |
| • Outflow | (30,544) | (56,406) | (69,543) | (10,779) | - | (167,272) |
| • Inflow | 31,654 | 56,522 | 69,118 | 10,789 | - | 168,083 |
| • Swaps | | | | | | |
| • Outflow | (206,710) | (205,355) | (132,949) | (2,395) | - | (547,409) |
| • Inflow | 200,797 | 200,486 | 131,430 | 2,483 | - | 535,196 |
| • Options | | | | | | |
| • Outflow | (11,719) | (39,466) | (104,573) | (51,866) | (31,198) | (238,822) |
| • Inflow | 11,719 | 39,043 | 104,614 | 51,866 | 31,198 | 238,440 |
| • Futures | | | | | | |
| • Outflow | - | (8,217) | - | - | - | (8,217) |
| • Inflow | - | 8,204 | - | - | - | 8,204 |
| | | | | | | |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| • Interest rate swaps and cross-currency swaps | | | | | | |
| • Outflow | (3,524) | (17,050) | (41,343) | (194,276) | (93,173) | (349,366) |
| • Inflow | 3,955 | 16,625 | 41,752 | 181,517 | 91,214 | 335,063 |
| • Forwards | | | | | | |
| • Outflow | (321) | - | - | - | - | (321) |
| • Caps and floors | | | | | | |
| • Outflow | (48) | (350) | (586) | (889) | (25) | (1,898) |
| • Inflow | 48 | 349 | 594 | 902 | 24 | 1,917 |
| | | | | | | |
| **TOTAL OUTFLOW** | **(252,866)** | **(326,844)** | **(348,994)** | **(260,205)** | **(124,396)** | **(1,313,305)** |
| **TOTAL INFLOW** | **248,173** | **321,229** | **347,508** | **247,557** | **122,436** | **1,286,903** |

## f) Equity risks

Guidelines for equity investment are prepared within the Strategy for trading in Financial Instruments in the NLB Group with the intention of efficient risk managing. Trading with equities is not allowed except as a service for banks' clients.

Total equity portfolio in banking book at the end 2009 amounts to Euro 220.2 million (31 December 2008: Euro 33.7 million). Presumption of 15% fall of indices or individual prices for illiquid stocks would result in portfolio value drop of Euro 28.1 million.

## 7.3. Information about the quality of debt securities

Debt securities are classified either into the trading book or into the banking book, according to the purpose of acquisition and how they will be managed. Securities that the Group acquires principally for generating profits as difference between purchase price and selling price are classified in the trading book. Securities within the trading book are classified in the financial statements always as financial assets held for trading. Securities for which the Group has the intention to hold to maturity are part of the banking book. In the financial statements they are classified as financial assets available for sale or held to maturity investments.

The portfolio of debt securities in the banking book ensures secondary liquidity and manages the interest rate risk of the Group. When managing the portfolio, the Group uses conservative principles, especially with respect to issuers' ratings and maturity of the portfolio.

Structure of the banking book according to Fitch ratings:

| Rating | 31.12.2009 | 31.12.2008 |
|---|---|---|
| | in % | in % |
| AAA | 18.3 | 39.5 |
| AA | 40.1 | 18.7 |
| A | 5.5 | 9.2 |
| BBB | 3.7 | 2.1 |
| BB | 4.0 | 5.5 |
| Unrated | 28.4 | 25.0 |
| **TOTAL** | **100.0** | **100.0** |

The portfolio of bonds in the trading book amounted to Euro 23 million as at 31 December 2009 (31 December 2008: Euro 147 million). Bonds from foreign issuers amounted to Euro 1.9 million. The remaining part of the portfolio comprises financial institutions bonds. The Group also has some short-term securities (certificates of deposit from domestic banks and commercial papers issued by foreign banks). As at 31 December 2009 these securities amounted to Euro 200.4 million, comprising:

- Euro 0.4 million certificates of deposits from domestic banks (31 December 2008: Euro 0.8 million),
- Commercial papers issued by banks with high (only AA) ratings Euro 200 million (31 December 2008: Euro 181 million).

Structure of trading book according to Fitch ratings:

| Rating | 31.12.2009 | 31.12.2008 |
|---|---|---|
| | in % | in % |
| AA | 47.8 | 2.0 |
| A | 35.7 | 93.4 |
| B | 16.5 | 4.6 |
| **TOTAL** | **100.0** | **100.0** |

## 7.4. Fair value of financial instruments

| In thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| Loans and advances to banks | 1,525,317 | 1,532,026 | 1,096,961 | 1,118,328 |
| Loans and advances to customers: | 12,332,918 | 12,667,175 | 12,916,930 | 13,443,374 |
| • Loans to government | 153,616 | 151,043 | 117,008 | 131,918 |
| • Loans to financial organizations | 459,904 | 467,560 | 564,998 | 574,403 |
| • Loans to individuals: | 2,795,485 | 2,932,323 | 2,768,713 | 2,856,353 |
| • Granted overdrafts | 215,347 | 240,763 | 195,310 | 201,493 |
| • Loans for houses and flats | 1,148,493 | 1,226,241 | 971,857 | 1,002,620 |
| • Consumer loans | 1,041,523 | 1,059,095 | 1,189,608 | 1,227,263 |
| • Other loans | 390,122 | 406,224 | 411,938 | 424,977 |
| • Loans to other customers: | 8,923,913 | 9,116,249 | 9,466,211 | 9,880,700 |
| • Loans to large corporate customers | 4,144,339 | 4,224,983 | 4,245,135 | 4,431,013 |
| • Loans to small and medium size enterprises | 4,779,574 | 4,891,266 | 5,221,076 | 5,449,687 |
| Held-to-maturity investments | 579,490 | 598,417 | 590,662 | 602,716 |
| Other assets | 98,499 | 98,499 | 44,510 | 44,510 |
| | | | | |
| Deposits from banks | 366,257 | 369,787 | 564,111 | 565,680 |
| Borrowings from banks* | 4,152,724 | 3,995,170 | 5,768,058 | 5,734,444 |
| Due to customers | 10,741,248 | 10,791,383 | 9,464,809 | 9,437,120 |
| Borrowings from other customers | 140,543 | 148,190 | 82,311 | 82,057 |
| Debt securities in issue | 1,780,047 | 1,815,625 | 493,651 | 482,928 |
| Subordinated liabilities | 833,600 | 768,787 | 886,658 | 803,828 |
| Other liabilities | 157,688 | 157,688 | 128,206 | 128,206 |

* Borrowings from banks include loans from repurchase agreements that are shown as financial liabilities associated to transferred assets on the face of the statement of financial position.

**Loans and advances to banks**
The estimated fair value of the deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. The fair value of overnight deposits equals their carrying value.

**Loans and advances to customers**
Loans and advances are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair value.

**Deposits and borrowings**
The fair value of demand deposits equals their carrying value. However, when considering the real value of these deposits to the depository institution one must consider also the timing and amounts of cash flows, current market rates and credit risk of the depository institution itself. Part of demand deposits are stable, similar to term deposits and therefore their economic value for the Group differs from the carrying amount.

The estimated fair value of other deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

**Debt securities held to maturity and debt securities in issue**
The fair value of securities held to maturity and debt securities in issue is based on their quoted market price or value calculated by using discounted cash flows techniques.

**Loan commitments**
All credit facilities are drawn soon after the Group grants a loan. Therefore they are drawable at market rates and their fair value is close to zero.

**Other financial assets and liabilities**
The carrying amount of other financial assets and liabilities is a reasonable approximation of fair value because they relate mainly to short-term receivable and payables.

# 8. OTHER DISCLOSURES

## 8.1. Related-party transactions

A number of banking transactions are entered into with related parties in the normal course of business. The volumes of related party transactions and the outstanding balances at year-end are as follows.

| In thousand of euros | Management Board and Key management personnel | | Shareholders* | | Supervisory Board | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| **Loans issued** | | | | | | |
| Balance at 1 January | 6,522 | 7,137 | 66,438 | 65,507 | 8 | 29 |
| Increase | 5,338 | 5,687 | 214,181 | 502,899 | 132 | 26 |
| Repayments | (4,623) | (6,302) | (216,071) | (501,968) | (28) | (47) |
| **Balance at 31 December** | **7,237** | **6,522** | **64,548** | **66,438** | **112** | **8** |
| | | | | | | |
| Interest income | 343 | 377 | 2,684 | 4,533 | 4 | 2 |
| | | | | | | |
| **Loans received** | | | | | | |
| Balance at 1 January | - | - | 51,211 | 11,515 | - | - |
| Increase | - | - | 615,033 | 188,328 | - | - |
| Repayments | - | - | (666,244) | (148,632) | - | - |
| **Balance at 31 December** | **-** | **-** | **-** | **51,211** | **-** | **-** |
| | | | | | | |
| Interest expense | - | - | (1,190) | (865) | - | - |
| | | | | | | |
| **Deposits** | | | | | | |
| Balance at 1 January | - | - | 40 | 107 | - | - |
| Increase | - | - | 3,283,021 | 8,314,967 | - | - |
| Repayments | - | - | (3,211,618) | (8,315,034) | - | - |
| **Balance at 31 December** | **-** | **-** | **71,443** | **40** | **-** | **-** |
| | | | | | | |
| Interest income | - | - | 340 | 2,572 | - | - |
| | | | | | | |
| **Deposits received** | | | | | | |
| Balance at 1 January | 12,085 | 7,872 | 721,762 | 858,285 | 117 | - |
| Increase | 25,641 | 35,771 | 6,361,794 | 5,598,465 | 1,433 | 134 |
| Repayments | (25,036) | (31,558) | (5,759,880) | (5,734,988) | (667) | (17) |
| **Balance at 31 December** | **12,690** | **12,085** | **1,323,676** | **721,762** | **883** | **117** |
| | | | | | | |
| Interest expense | (485) | (514) | (41,032) | (52,553) | (17) | (2) |
| | | | | | | |
| **Investments in securities** | | | | | | |
| Balance at 1 January | - | - | 489,380 | 504,560 | - | - |
| Increase | - | - | 1,636,514 | 669,083 | - | - |
| Repayments | - | - | (1,073,803) | (688,233) | - | - |
| Valuation | - | - | 6,041 | 3,970 | - | - |
| **Balance at 31 December** | **-** | **-** | **1,058,132** | **489,380** | **-** | **-** |
| | | | | | | |
| Interest and dividend income | - | - | 24,310 | 17,959 | - | - |
| | | | | | | |
| **Debt securities in issue** | **328** | **328** | **17,515** | **126,489** | **-** | **-** |
| | | | | | | |
| Interest expense | (14) | (14) | (2,724) | (5,421) | - | - |
| | | | | | | |
| **Derivatives:** | | | | | | |
| Fair value | - | - | 4,147 | 3,080 | - | - |
| Contractual amount | - | - | 738,036 | 206,721 | - | - |
| | | | | | | |
| **Other assets** | **-** | **-** | **1,792** | **1,482** | **-** | **-** |
| | | | | | | |
| **Other liabilities** | **-** | **-** | **36,473** | **12** | **-** | **-** |
| | | | | | | |
| **Guarantees issued** | **336** | **348** | **8,948** | **7,378** | **7** | **5** |
| | | | | | | |
| Fee income | 27 | 19 | 60 | 501 | - | - |
| | | | | | | |
| Fee expense | - | - | - | (1) | - | - |

* Shareholders with more than 5% of ownership.

| In thousand of euros | Associated companies and joint ventures | |
|---|---|---|
| | 2009 | 2008 |
| **Loans issued** | | |
| Balance at 1 January | 184,794 | 48,565 |
| Increase | 301,298 | 390,912 |
| Repayments | (328,060) | (254,683) |
| **Balance at 31 December** | **158,032** | **184,794** |
| | | |
| Interest income | 9,158 | 11,109 |
| | | |
| **Loans received** | | |
| Balance at 1 January | 20,414 | 17,865 |
| Increase | 3,845 | 21,496 |
| Repayments | (9,024) | (18,947) |
| **Balance at 31 December** | **15,235** | **20,414** |
| | | |
| Interest expense | (799) | (1,354) |
| | | |
| **Deposits** | | |
| Balance at 1 January | 11,034 | 27,543 |
| Increase | 801,881 | 1,017,183 |
| Repayments | (755,936) | (1,033,692) |
| **Balance at 31 December** | **56,979** | **11,034** |
| | | |
| Interest income | 311 | 1,236 |
| | | |
| **Deposits received** | | |
| Balance at 1 January | 27,281 | 11,561 |
| Increase | 380,564 | 557,831 |
| Repayments | (390,781) | (542,111) |
| **Balance at 31 December** | **17,064** | **27,281** |
| | | |
| Interest expense | (278) | (621) |
| | | |
| **Investments in securities** | | |
| Balance at 1 January | 4,813 | 4,936 |
| Increase | 195 | 341 |
| Repayments | (4,560) | (643) |
| Valuation | (448) | 179 |
| **Balance at 31 December** | **-** | **4,813** |
| | | |
| Interest and dividend income | 195 | 341 |
| | | |
| **Debt securities in issue** | **28,486** | **37,847** |
| | | |
| Interest expense | (1,222) | (654) |
| | | |
| **Guarantees issued** | **31,743** | **9,693** |
| | | |
| Fee income | 320 | 287 |
| | | |
| Fee expense | (441) | (238) |

### Key management compensation

Considering the Guidelines of the Committee of European Banking Supervisors, the Decision of the Bank of Slovenia on diligence of members of management and supervisory boards of banks and savings banks and in accordance with the competences of the Supervisory Board, as defined by the Articles of Association of NLB d.d., the Supervisory Board adopted the Criteria for remunerating the members of the Management Board in 2010.

The basis for collective remuneration of members of the Management Board is several quantitative indicators comparing:

- The operations of NLB d.d. and the NLB Group compared to the plan (ratio between profit before provisions and capital requirements for risks at the NLB Group level, cost-income ratio (CIR) at the level of the NLB Group);
- Operations of NLB d.d. and the NLB Group compared to the year before (ratio between loans to the non-banking sector and corporate and retail deposits);
- The operations of NLB d.d. in comparison with banks in Slovenia in the same year (ratio between loans to the non-banking sector and deposits of the non-banking sector);
- The performance of the NLB Group compared to comparable banking groups in the same year (ROE and CIR).

The basis for individual remuneration to members of the Management Board (qualitative part) is individual assignments from the action plan for 2010.

| In thousand of euros | Management Board | | Other key management | | Supervisory Board | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Short-term benefits | 1,179 | 1,089 | 20,077 | 21,258 | 135 | 149 |
| Costs refund | 6 | - | 304 | - | 50 | 94 |
| Long-term bonuses: | | | | | | |
| • severance pay | 162 | - | 47 | 92 | - | - |
| • post employment benefits | 57 | 57 | 653 | 760 | - | - |
| • jubilee bonus | - | - | 7 | 19 | - | - |
| Bonuses | - | - | 531 | 1,896 | - | - |
| **TOTAL** | **1,404** | **1,146** | **21,619** | **24,025** | **185** | **243** |

Short-term benefits include:

- Monetary benefits (salaries, insurance premiums, holiday bonus, session fees for supervision in subsidiaries, other bonuses);
- Non monetary benefits (car, health care, apartments).

Costs refund comprises food allowance and travel expenses.

Post employment benefits include pensions, life insurance after termination of employment and health care after termination of employment.

### Accrued income by individual member of the management board from 1 January to 31 December 2009

| Member | | In euros |
|---|---|---|
| Božo Jašovič | Short-term benefits: | |
| 1.10.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 39,270.40 |
| | Cost refunds | 455.17 |
| | Long-term bonuses: | |
| | - Post employment benefits | 434.10 |
| **Total** | | **40,159.67** |
| Marjan Kramar | Short-term benefits: | |
| 1.1.2009 - 31.1.2009 | - Gross salary, benefits and holiday allowance | 189,794.14 |
| | Cost refunds | 102.98 |
| | Long-term bonuses: | |
| | - Post employment benefits | 217.05 |
| **Total** | | **190,114.17** |
| Draško Veselinovič | Short-term benefits: | |
| 1.2.2009 - 30.9.2009 | - Gross salary, benefits and holiday allowance | 135,236.31 |
| | Cost refunds | 688.34 |
| | Long-term bonuses: | |
| | - Post employment benefits | 7,657.00 |
| | Session fees for supervision in subsidiaries | 1,545.00 |
| **Total** | | **145,126.65** |

| | | |
|---|---|---|
| David Benedek | Short-term benefits: | |
| 14.7.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 72,842.98 |
| | Cost refunds | 531.16 |
| | Long-term bonuses: | |
| | - Post employment benefits | 5,747.15 |
| | Session fees for supervision in subsidiaries | 6,468.00 |
| **Total** | | **85,589.29** |
| | | |
| Claude J C Deroose | Short-term benefits: | |
| 1.1.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 179,911.76 |
| | Cost refunds | 769.64 |
| | Long-term bonuses: | |
| | - Post employment benefits | 11,446.20 |
| | Session fees for supervision in subsidiaries | 6,258.00 |
| **Total** | | **198,385.60** |
| | | |
| Marko Jazbec | Short-term benefits: | |
| 1.12.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 12,674.03 |
| | Cost refunds | 119.24 |
| **Total** | | **12,793.27** |
| | | |
| Robert Kleindienst | Short-term benefits: | |
| 1.12.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 12,820.82 |
| | Cost refunds | 102.98 |
| **Total** | | **12,923.80** |
| | | |
| Matej Narat | Short-term benefits: | |
| 1.1.2009 - 30.11.2009 | - Gross salary, benefits and holiday allowance | 156,972.40 |
| | Cost refunds | 986.44 |
| | Long-term bonuses: | |
| | - Severance pay | 53,961.70 |
| | - Post employment benefits | 10,447.05 |
| | Session fees for supervision in subsidiaries | 10,935.00 |
| **Total** | | **233,302.59** |
| | | |
| Alojz Jamnik | Short-term benefits: | |
| 1.1.2009 - 30.11.2009 | - Gross salary, benefits and holiday allowance | 167,254.52 |
| | Cost refunds | 1,018.96 |
| | Long-term bonuses: | |
| | - Severance pay | 53,959.10 |
| | - Post employment benefits | 10,416.45 |
| | Session fees for supervision in subsidiaries | 19,277.00 |
| **Total** | | **251,926.03** |
| | | |
| Miran Vičič | Short-term benefits: | |
| 1.1.2009 - 30.11.2009 | - Gross salary, benefits and holiday allowance | 163,279.56 |
| | Cost refunds | 1,024.49 |
| | Long-term bonuses: | |
| | - Severance pay | 53,965.62 |
| | - Post employment benefits | 10,459.85 |
| | Session fees for supervision in subsidiaries | 4,353.00 |
| **Total** | | **233,082.52** |

## Accrued income by individual member of the supervisory board from 1 January to 31 December 2009

| Member | | In euros |
|---|---|---|
| Marko Simoneti | Session fees | 7,680.75 |
| 1.7.2009 - 31.12.2009 | | |
| 16.11.2009 - 31.12.2009 | | |
| | | |
| Stanislava Zadravec Caprirolo | Session fees | 6,649.50 |
| 1.7.2009 -16.11.2009 | | |
| | | |
| Gregor Dolenc | Session fees | 6,534.00 |
| 1.7.2009 - 31.12.2009 | Reimbursement of expenses | 10,214.13 |
| | | |
| Rasto Ovin | Session fees | 5,073.75 |
| 1.7.2009 - 31.12.2009 | Reimbursement of expenses | 986.32 |
| | | |
| Boris Škapin | Session fees | 8,250.00 |
| 1.7.2009 - 31.12.2009 | | |
| | | |
| Andrej Baričič | Session fees | 7,986.00 |
| 1.7.2009 - 31.12.2009 | Reimbursement of expenses | 2,656.37 |
| | | |
| Stojan Petrič | Session fees | 7,590.00 |
| 1.7.2009 - 31.12.2009 | | |
| | | |
| Igor Masten | Session fees | 6,666.00 |
| 1.7.2009 - 31.12.2009 | | |
| | | |
| Jean O C Vanhevel | Session fees | 5,528.80 |
| 1.1.2009 - 31.12.2009 | Reimbursement of expenses | 2,477.74 |
| | | |
| Rita Paula C L Docx | Session fees | 16,338.20 |
| 1.1.2009 - 31.12.2009 | Reimbursement of expenses | 13,415.08 |
| | | |
| John Artur Hollows | Session fees | 10,825.90 |
| 1.1.2009 - 31.12.2009 | Reimbursement of expenses | 10,677.47 |
| | | |
| Igor Marinšek | Session fees | 9,601.60 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 567.24 |
| | | |
| Katja Božič | Session fees | 8,264.00 |
| 1.1.2009 - 30.6.2009 | | |
| | | |
| Peter Ješovnik | Session fees | 4,638.40 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 18.06 |
| | | |
| Iztok Bricl | Session fees | 6,232.20 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 96.78 |
| | | |
| Marko Rus | Session fees | 9,781.00 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 7,209.87 |
| | | |
| Darko Tisaj | Session fees | 7,486.80 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 1,137.30 |

## 8.2. Segmental analysis

### a) Business segments

| In thousand of euros | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Banking Slovenia | Banking abroad | Leasing | Factoring and forfeiting | Asset management | Other activities | Total |
| Total net revenues | 396,231 | 171,265 | 42,189 | 30,411 | 3,451 | 11,637 | 655,184 |
| Net revenues from external customers | 352,085 | 185,646 | 55,485 | 41,039 | 4,587 | 2,157 | 640,999 |
| Intersegment net revenues | 44,146 | (14,381) | (13,296) | (10,628) | (1,136) | 9,480 | 14,185 |
| • Net interest revenues | 249,472 | 124,924 | 22,561 | 28,719 | 39 | (2,548) | 423,167 |
| • Net interest revenues from external customers | 207,633 | 138,859 | 38,805 | 38,241 | 2 | (373) | 423,167 |
| • Intersegment net interest revenues | 41,839 | (13,935) | (16,244) | (9,522) | 37 | (2,175) | - |
| Administrative expenses | (215,461) | (104,343) | (15,194) | (7,650) | (2,315) | (9,874) | (354,837) |
| Depreciation and amortisation | (33,727) | (16,466) | (10,793) | (320) | (114) | (1,369) | (62,789) |
| Reportable segment profit before impairment charge | 143,124 | 38,576 | 18,454 | 22,016 | 1,148 | 55 | 223,373 |
| The Group's profit in a associates and joint ventures | 2,789 | 807 | - | 571 | - | 2,052 | 6,219 |
| Other material non-cash items | | | | | | | |
| • Impairment and provisions charge | (160,737) | (86,580) | (24,736) | (35,139) | - | (8,293) | (315,485) |
| (Loss)/Profit for the year | (15,595) | (48,973) | (5,806) | (11,614) | 906 | (4,831) | (85,913) |
| | | | | | | | |
| Reportable segment assets | 13,728,884 | 4,079,643 | 903,900 | 706,000 | 2,641 | 73,969 | 19,495,037 |
| Investments in associated companies and joint ventures | 79,493 | 9,850 | - | 5,610 | - | 15,567 | 110,520 |
| Reportable segment liabilities | 14,220,396 | 3,288,352 | 390,847 | 439,276 | 266 | 22,224 | 18,361,361 |

For the purpose of management reporting, the Group's operations are divided into five main business segments:
- banking in Slovenia,
- banking abroad,
- factoring and forfeiting,
- leasing,
- asset management.

Companies in NLB Group are classified into business segments on the basis of their business activity, so that the contribution of each company is allocated in one business segment only.

Due to differences in the level of development in national bank systems, banking is split into two segments: Slovenia and other markets. Segmentation is based on the location of each bank's headquarters, regardless of their actual business activities. Slovenian banking segment consists of parent bank NLB d.d. and associated company Banka Celje (the contribution of the latter to the Group's results is based on the Equity method of accounting). All the other banks in the NLB Group are included in the segment Banking abroad.

Segment of Other activities includes insurance and other supporting operations (providing services related to processing of cards and ATM machines, as well as POS terminals, management of properties, maintenance, catering and tourism services).

As NLB Group is mostly a financial group and interest income represents the majority of the group's income, the main indicators of segment efficiency are net profit before the provisions and impairments and net profit.

Results of the Banking abroad segment for the year 2009 includes one-off event: impairment of goodwill and other identified intangible assets in the amount of Euro 9,754 thousand (detailed explanation in note 6.13).

As each individual company is included as a whole in one business segment and is not divided in to several segments, actual inter-company transactions between group-members are regarded as transactions between business segments. Transactions are carried out under usual terms and market prices, so contractual prices are used also as transfer prices. The amount of net income arising from transactions between the segments is shown in the item Intersegment net revenues. Net revenues from external customers correspond to consolidated net income of the Group.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

| In thousand of euros | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Banking Slovenia | Banking abroad | Leasing | Factoring and forfeiting | Asset management | Other activities | Total |
| Total net revenues | 422,749 | 189,751 | 23,855 | 35,145 | 3,790 | 6,329 | 681,619 |
| Net revenues from external customers | 357,236 | 207,683 | 50,511 | 42,799 | 5,684 | 931 | 664,844 |
| Intersegment net revenues | 65,513 | (17,932) | (26,656) | (7,654) | (1,894) | 5,398 | 16,775 |
| • Net interest revenues | 285,600 | 142,696 | 18,097 | 32,898 | 133 | (3,394) | 476,030 |
| • Net interest revenues from external customers | 335,621 | 124,627 | (3,637) | 25,613 | 181 | (6,375) | 476,030 |
| • Intersegment net interest revenues | 50,021 | (18,069) | (21,734) | (7,285) | 48 | (2,981) | - |
| Administrative expenses | (222,647) | (103,978) | (12,307) | (9,029) | (2,039) | (10,059) | (360,059) |
| Depreciation and amortisation | (34,896) | (16,417) | (9,956) | (379) | (131) | (1,381) | (63,160) |
| Reportable segment profit before impairment charge | 147,963 | 63,798 | 11,241 | 22,117 | 1,893 | (5,387) | 241,625 |
| The Group's profit in a associates and joint ventures | 4,677 | 747 | - | 1,523 | - | 1,072 | 8,019 |
| Other material non-cash items | | | | | | | |
| • Impairment of assets | (127,769) | (57,755) | (11,501) | (14,449) | - | 23 | (211,451) |
| Profit/(Loss) for the year | 18,024 | 1,692 | (1,538) | 7,603 | 1,474 | (4,420) | 22,835 |
| | | | | | | | |
| Reportable segment assets | 12,792,360 | 4,145,801 | 959,129 | 830,667 | 2,249 | 82,699 | 18,812,905 |
| Investments in associated companies and joint ventures | 75,318 | 9,782 | - | 7,409 | - | 12,770 | 105,279 |
| Reportable segment liabilities | 13,161,152 | 3,328,739 | 465,517 | 603,735 | 252 | 22,416 | 17,581,811 |

### b) Geographical segments

| In thousand of euros | Net revenues | | Non-current and financial assets | | Total assets | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 31.12.2009 | 31.12.2008 | 31.12.2009 | 31.12.2008 |
| Slovenia | 386,855 | 387,544 | 5,721,669 | 5,831,128 | 14,386,033 | 13,490,811 |
| South East Europe* | 204,930 | 221,024 | 1,501,967 | 1,552,380 | 3,722,208 | 3,603,822 |
| Western Europe** | 49,214 | 56,276 | 628,883 | 800,986 | 1,497,316 | 1,823,551 |
| **TOTAL** | **640,999** | **664,844** | **7,852,519** | **8,184,494** | **19,605,557** | **18,918,184** |

* Macedonia, Serbia, Montenegro, Croatia, Bosnia and Herzegovina, Bulgaria
** Germany, Switzerland, Austria, Czech Republic, Slovak Republic

Geographical analyses include the division between geographical segments according to the country in which individual Group companies are located.

## 8.3. Subsidiaries

The Group's subsidiaries as at 31 December 2009 are:

| In thousand of euros | Nature of Business | Country of Incorporation | Equity as at 31 December 2009 | Profit (loss) for the period 2009 | Group's shareholding %* | Voting rights%* |
|---|---|---|---|---|---|---|
| **LHB Internationale Handelsbank AG, Frankfurt/Main** | Banking | Republic of Germany | 72,477 | (27,862) | 100 | 100 |
| LHB Immobilien GmbH, Frankfurt/Main | Property | Republic of Germany | 2,046 | - | 100 | 100 |
| LHB Trade d.o.o., Zagreb | Trading | Republic of Croatia | 615 | 6 | 100 | 100 |
| **NLB Tutunska Banka a.d., Skopje** | Banking | Republic of Macedonia | 70,024 | 7,190 | 86.97 | 86.97 |
| NLB Tutunska broker a.d., Skopje | Finance | Republic of Macedonia | 3,198 | 213 | 100 | 100 |
| **NLB Montenegrobanka a.d., Podgorica** | Banking | Republic of Montenegro | 36,110 | 1,401 | 88.11 | 88.11 |
| **NLB banka a.d., Beograd** | Banking | Republic of Serbia | 61,309 | (6,413) | 99.98 | 99.98 |
| Conet a.d., Novi Sad | Trade | Republic of Serbia | 793 | 5 | 84.68 | 84.68 |
| Convest a.d., Novi Sad | Finance | Republic of Serbia | 314 | 65 | 100 | 100 |
| **NLB Tuzlanska banka d.d., Tuzla** | Banking | Republic of Bosnia and Herzegovina | 32,624 | 1,189 | 96.30 | 96.32 |
| **NLB Razvojna banka a.d., Banja Luka** | Banking | Republic of Bosnia and Herzegovina | 41,496 | 3,599 | 99.85 | 99.85 |
| **NLB Prishtina sh.a., Priština** | Banking | Republic of Kosovo | 30,936 | 3,458 | 81.21 | 81.21 |
| **NLB Banka Sofia a.d., Sofija** | Banking | Republic of Bulgaria | 12,138 | (1,902) | 97.01 | 97.01 |
| **NLB Leasing d.o.o., Ljubljana** | Finance | Republic of Slovenia | 33,879 | (2,807) | 100 | 100 |
| NLB Leasing d.o.o., Beograd | Finance | Republic of Serbia | 8,275 | 624 | 100 | 100 |
| NLB Leasing d.o.o., Sarajevo | Finance | Republic of Bosnia and Herzegovina | 290 | 83 | 100 | 100 |
| NLB Leasing Sofija E.o.o.d., Sofija | Finance | Republic of Bulgaria | (2,315) | (1,350) | 100 | 100 |
| Optima Leasing d.o.o., Zagreb | Finance | Republic of Croatia | 452 | 126 | 75 | 75 |
| NLB Leasing Podgorica d.o.o., Podgorica | Finance | Republic of Montenegro | 1,910 | (171) | 100 | 100 |
| NLB Real Estate d.o.o., Beograd | Finance | Republic of Serbia | (90) | (37) | 100 | 100 |
| **NLB Leasing Maribor d.o.o., Maribor** | Finance | Republic of Slovenia | 3,420 | (1,169) | 100 | 100 |
| **NLB Leasing Koper d.o.o., Koper** | Finance | Republic of Slovenia | 4,557 | 212 | 100 | 100 |
| OL Nekretnine d.o.o., Zagreb | Property | Republic of Croatia | (1,123) | (1,293) | 75.1 | 75.1 |
| **NLB Lizing d.o.o.e.l., Skopje** | Finance | Republic of Macedonia | 4,854 | 658 | 100 | 100 |
| **NLB InterFinanz AG, Zürich** | Finance | Switzerland | 31,796 | 1,205 | 100 | 100 |
| NLB InterFinanz Praha s.r.o., Praga | Finance | Czech Republic | 36 | 15 | 100 | 100 |
| NLB InterFinanz d.o.o., Beograd | Finance | Republic of Serbia | 34 | 18 | 100 | 100 |
| **NLB Factoring a.s., Ostrava** | Finance | Czech Republic | 4,996 | 51 | 100 | 100 |
| **NLB Factor a.s., Bratislava** | Finance | Slovak Republic | 47 | (758) | 100 | 100 |
| **LHB Finance d.o.o., Ljubljana** | Finance | Republic of Slovenia | 1,340 | (7,278) | 100 | 100 |
| **NLB Skladi d.o.o., Ljubljana** | Finance | Republic of Slovenia | 4,043 | 897 | 100 | 100 |
| **Plan a.d., Banja Luka** | Architecture services | Republic of Bosnia and Herzegovina | 723 | 3 | 81.3 | 81.3 |
| **NLB Nov penziski fond a.d., Skopje** | Insurance | Republic of Macedonia | 2,138 | 353 | 100 | 100 |
| **NLB Nova penzija a.d., Beograd** | Insurance | Republic of Serbia | 1,059 | 708 | 85.71 | 85.71 |
| **FIN-DO d.o.o., Domžale** | Property | Republic of Slovenia | 91 | (871) | 100 | 100 |
| **NLB Propria d.o.o., Ljubljana** | Property | Republic of Slovenia | 10,983 | 53 | 100 | 100 |
| **NLB Srbija d.o.o., Beograd** | Property | Republic of Serbia | 664 | 50 | 100 | 100 |
| **CBS Invest d.o.o., Sarajevo** | Property | Republic of Bosnia and Herzegovina | 53 | (9) | 100 | 100 |
| **Prospera plus d.o.o., Ljubljana** | Tourist and catering trade | Republic of Slovenia | 471 | 7 | 100 | 100 |

* Ownership interest and voting rights are calculated after the deduction of treasury shares.
The above financial information is derived from local official reports.

# Audited financial statements for NLB d.d.

**under International Financial Reporting Standards as adopted by the European Union**

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers d.o.o.**
Cesta v Kleče 15,
SI-1000 Ljubljana, Slovenia
Telephone: +386 1 5836 000
Facsimile: +386 1 5836 099
Matriculation No.: 5717159
VAT No.: SI35498161

**Independent auditor's report**

**To the Shareholders of Nova Ljubljanska banka d.d.**

## Report on the Financial Statements

We have audited the accompanying parent company financial statements of Nova Ljubljanska banka d.d. (the 'Bank') which comprise the statement of financial position as of 31 December 2009 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

PRICEWATERHOUSECOOPERS

*Opinion*
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank standing alone as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Act.

**Report on Other Legal and Regulatory Requirements**

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

In our opinion, the Directors' Report is consistent with the accompanying financial statements of the Bank as of 31 December 2009.

PRICEWATERHOUSECOOPERS d.o.o.
1

Ljubljana, March 19, 2010

PricewaterhouseCoopers d.o.o.

Leon Živec
Certified Auditor

Francois Mattelaer
Partner

# Index

## Income statement

| in thousand of euros | Notes | 2009 | 2008 |
|---|---|---|---|
| Interest and similar income | 4.1. | 624,685 | 818,256 |
| Interest and similar expenses | 4.1. | (375,213) | (532,656) |
| **Net interest income** | | **249,472** | **285,600** |
| | | | |
| Dividend income | 4.2. | 32,147 | 37,667 |
| | | | |
| Fee and commission income | 4.3. | 142,785 | 146,995 |
| Fee and commission expenses | 4.3. | (27,436) | (25,905) |
| **Net fee and commission income** | | **115,349** | **121,090** |
| | | | |
| Gains less losses from financial assets and liabilities not classified as at fair value through profit or loss | 4.4. | 3,543 | 14,768 |
| Gains less losses from financial assets and liabilities held for trading | 4.5. | 11,209 | (66,620) |
| Gains from financial assets and liabilities designated at fair value through profit or loss | | 5,215 | - |
| Fair value adjustments in hedge accounting | 5.5. | (61) | 73 |
| Foreign exchange translation gains less losses | | (5,407) | 40,019 |
| Gains less losses on derecognition of assets other than held for sale | | (54) | (4,080) |
| Other operating income | 4.6. | 18,504 | 18,581 |
| Other operating expenses | 4.7. | (2,205) | (2,354) |
| Administrative expenses | 4.8. | (219,653) | (226,899) |
| Depreciation and amortization | 4.9. | (33,727) | (34,896) |
| Provisions for other liabilities and charges | 4.10. | (1,975) | 10,957 |
| Impairment charge | 4.11. | (194,080) | (137,701) |
| Net loss from non-current assets held for sale | | (1.117) | (170) |
| **(LOSS)/PROFIT BEFORE INCOME TAX** | | **(22,840)** | **56,035** |
| | | | |
| Income tax expense | 4.12. | (781) | (6,847) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(23,621)** | **49,188** |
| | | | |
| Basic and diluted (loss)/earnings per share (expressed in euros per share) | 4.13. | (2.7) | 5.9 |

The notes are an integral part of these financial statements.

## Statement of comprehensive income

| in thousand of euros | Note | 2009 | 2008 |
|---|---|---|---|
| **Net (loss)/profit for the period after tax** | | **(23,621)** | **49,188** |
| | | | |
| **Other comprehensive income/(loss) after tax** | | **6,344** | **(1,063)** |
| | | | |
| **Cash flow hedges (effective portion)** | | **(830)** | **(5,157)** |
| Valuation losses taken to equity | | (4,721) | (4,273) |
| Transferred to profit | | 3,891 | (884) |
| | | | |
| **Available for sale financial assets** | | **8,795** | **3,825** |
| Valuation gains/(losses) taken to equity | | 7,524 | (42,501) |
| Transferred to profit | 4.4. and 4.11. | 1,271 | 46,326 |
| | | | |
| **Income tax relating to components of other comprehensive (loss)/income** | 5.21. | **(1,621)** | **269** |
| | | | |
| **Total comprehensive (loss)/income for the period after tax** | | **(17,277)** | **48,125** |

The notes are an integral part of these financial statements.

## Statement of financial position

| in thousand of euros | Notes | 31.12. 2009 | 31.12. 2008 |
|---|---|---|---|
| Cash and balances with Central Bank | 5.1. | 381,987 | 307,250 |
| Trading assets | 5.2. | 351,041 | 459,433 |
| Financial assets designated at fair value through profit or loss | 5.3. | 28,114 | 1,019 |
| Available for sale financial assets | 5.4. | 2,481,655 | 1,327,919 |
| Derivatives - hedge accounting | 5.5. | 28,703 | 8,095 |
| Loans and advances to banks | 5.7. | 1,313,118 | 848,425 |
| Loans and advances to customers | 5.8. | 9,456,708 | 9,719,374 |
| Held to maturity investments | 5.9. | 579,316 | 590,400 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 500 | |
| Non-current assets held for sale | 5.10. | 6,408 | 3,857 |
| Pledged assets | 5.18.c) | - | 400,682 |
| Property and equipment | 5.11. | 161,493 | 165,993 |
| Investment property | 5.12. | 1,788 | 1,788 |
| Intangible assets | 5.13. | 78,498 | 85,240 |
| Investments in subsidiaries, associated companies and joint ventures | 5.14. | 554,757 | 510,047 |
| Current income tax asset | | 18,090 | - |
| Deferred income tax asset | 5.21. | 14,160 | 14,645 |
| Other assets | 5.15. | 52,747 | 32,524 |
| **TOTAL ASSETS** | | **15,509,083** | **14,476,691** |
| | | | |
| Deposits and borrowings from Central Bank | 5.18.e) | 802,036 | 201,314 |
| Trading liabilities | 5.17. | 57,204 | 67,716 |
| Derivatives - hedge accounting | 5.5. | 32,916 | 10,048 |
| Deposits from banks | 5.18.a) | 336,003 | 508,910 |
| Borrowings from banks | 5.18.b) | 2,196,634 | 3,576,889 |
| Due to customers | 5.18.a) | 8,191,185 | 7,071,396 |
| Borrowings from other customers | 5.18.b) | 10,108 | 1,611 |
| Debt securities in issue | 5.18.d) | 1,769,606 | 468,872 |
| Subordinated liabilities | 5.19. | 784,911 | 839,290 |
| Financial liabilities associated to transferred assets | 5.18.c) | - | 400,518 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 26 | - |
| Provisions | 5.20. | 55,836 | 58,688 |
| Current income tax liabilities | | 1,123 | 14,356 |
| Other liabilities | 5.22. | 93,873 | 59,257 |
| **TOTAL LIABILITIES** | | **14,331,461** | **13,278,865** |
| | | | |
| Share capital | 5.24. | 74,328 | 74,328 |
| Share premium | 5.25. | 495,595 | 495,595 |
| Revaluation reserve | 5.4.d) and 5.5.c) | 5,599 | (745) |
| Profit reserves | 5.25. | 604,148 | 605,915 |
| Retained earnings | | - | 187 |
| Treasury shares | 5.24. | (2,048) | (2,048) |
| Net profit for the year | 5.25. | - | 24,594 |
| **TOTAL EQUITY** | | **1,177,622** | **1,197,826** |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | | **15,509,083** | **14,476,691** |

The notes are an integral part of these financial statements.

The Management Board authorized for issue the financial statements and notes to the financial statements.

| | | | | |
|---|---|---|---|---|
| **Robert Kleindienst**<br>Member of the Management Board | **Marko Jazbec**<br>Member of the Management Board | **Claude Deroose**<br>Member of the Management Board | **David Benedek**<br>Member of the Management Board | **Božo Jašovič**<br>President of the Management Board &CEO |

Ljubljana, 19 March 2010

## Statements of changes in equity

| in thousand of euros | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Revaluation reserve | Profit reserves | Retained earnings | Treasury shares | **Total shareholders equity** |
| **Balance at 1 January** | **74,328** | **495,595** | **(745)** | **605,915** | **24,781** | **(2,048)** | **1,197,826** |
| Total comprehensive income | - | - | 6,344 | - | (23,621) | - | (17,277) |
| Dividends paid | - | - | - | - | (2,927) | - | (2,927) |
| Allocation of net profit from previous year | - | - | - | 21,854 | (21,854) | - | - |
| Appropriation to profit reserves | - | - | - | (23,621) | 23,621 | - | - |
| **Balance at 31 December** | **74,328** | **495,595** | **5,599** | **604,148** | **-** | **(2,048)** | **1,177,622** |

| in thousand of euros | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Revaluation reserve | Profit reserves | Retained earnings | Treasury shares | **Total shareholders equity** |
| **Balance at 1 January** | **66,831** | **203,236** | **318** | **557,200** | **71,688** | **(2,048)** | **897,225** |
| Total comprehensive income | - | - | (1,063) | - | 49,188 | - | 48,125 |
| Issue of ordinary shares | 7,497 | 292,359 | - | - | - | - | 299,856 |
| Dividends paid | - | - | - | - | (47,380) | - | (47,380) |
| Allocation of net profit from previous year | - | - | - | 48,715 | (48,715) | - | - |
| **Balance at 31 December** | **74,328** | **495,595** | **(745)** | **605,915** | **24,781** | **(2,048)** | **1,197,826** |

The notes are an integral part of these financial statements.

## Statement of cash flows

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest received | 615,284 | 848,327 |
| Interest paid | (354,303) | (561,475) |
| Dividends received | 26,994 | 36,984 |
| Fee and commission receipts | 141,764 | 147,956 |
| Fee and commission payments | (27,393) | (25,892) |
| Realized gains from financial assets and financial liabilities not at fair value through profit or loss | 8,770 | 14,887 |
| Realized losses from financial assets and financial liabilities not at fair value through profit or loss | (5,227) | (119) |
| Losses from financial assets and liabilities held for trading | (19,553) | (23,887) |
| Payments to employees and suppliers | (224,144) | (232,017) |
| Other income | 18,255 | 18,052 |
| Other expenses | (5,677) | (4,908) |
| Income tax paid | (30,810) | (6,054) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | **143,960** | **211,854** |
| **Increases in operating assets** | **(839,643)** | **(662,185)** |
| Net increase in financial assets at Central Bank | (9,893) | (5,129) |
| Net decrease in trading assets | 55,353 | 41,511 |
| Net increase in available for sale financial assets | (574,183) | (20,590) |
| Net increase in loans and advances | (290,331) | (699,364) |
| Net (increase)/decrease in non current assets held for sale | (3,455) | 161 |
| Net (increase)/decrease in other assets | (17,134) | 21,226 |
| **Increases in operating liabilities** | **1,095,999** | **190,754** |
| Net increase in deposits from central bank | 601,973 | 201,214 |
| Net decrease in deposits and loans measured at amortized cost | (835,771) | (32,357) |
| Net increase in securities measured at amortized cost | 1,328,145 | 46,953 |
| Net increase/(decrease) in other liabilities | 1,652 | (25,056) |
| **Net cash used in operating activities** | **400,316** | **(259,577)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| **Receipts from investing activities** | **65,905** | **81,488** |
| Proceeds from sale of property and equipment and investment property | 301 | 899 |
| Redemption of held to maturity investments | 65,604 | 80,589 |
| **Payments from investing activities** | **(157,524)** | **(339,890)** |
| Purchase of property and equipment and investment property | (16,442) | (19,161) |
| Purchase of intangible assets | (13,444) | (19,019) |
| Purchase of subsidiaries, associated companies and joint ventures | (72,711) | (112,653) |
| Purchase of held to maturity investments | (54,927) | (189,057) |
| **Net cash flows used in investing activities** | **(91,619)** | **(258,402)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| **Proceeds from financing activities** | **-** | **300,000** |
| Issue of ordinary shares | - | 300,000 |
| **Payments from financing activities** | **(52,929)** | **(64,609)** |
| Dividends paid | (2,929) | (47,464) |
| Repayments of subordinated debt | (50,000) | (17,000) |
| Other payments related to financing activities | - | (145) |
| **Net cash from financing activities** | **(52,929)** | **235,391** |
| Effects of exchange rate changes on cash and cash equivalents | 1,895 | (335) |
| **Net increase/(decrease) in cash and cash equivalents** | **255,768** | **(282,588)** |
| **Cash and cash equivalents at beginning of year** | **542,778** | **825,701** |
| **Cash and cash equivalents at end of year** | **800,441** | **542,778** |

The notes are an integral part of these financial statements.

| in thousand of euros | Notes | 2009 | 2008 |
|---|---|---|---|
| **Cash and cash equivalents comprise:** | | | |
| Cash and balances with Central Bank | 5.1. | 230,684 | 165,840 |
| Loans and advances to banks maturing within three months | 5.7. | 569,757 | 376,938 |
| **TOTAL** | | **800,441** | **542,778** |

Loans included within cash and cash equivalents have original maturity up to 90 days (see note 2.17).

# Statement of management's responsibilities

The Management Board herewith confirms the financial statements for the year ended 31 December 2009 and the accompanying accounting policies and notes to the accounting policies.

The Management Board is responsible for the preparation of the annual report in a way as to be a true and fair representation of the Bank's assets and the results of its operations for the year ended 31 December 2009.

The Management Board additionally confirms that the appropriate accounting policies were consistently used and that the accounting estimates were prepared according to the principles of precaution and good management. The Management Board furthermore confirms that the financial statements together with the notes have been prepared on the basis of the assumption of continued operations of the Bank and in line with the valid legislation and the International Financial Reporting Standards, as adopted by the EU.

The Management Board is also responsible for appropriate accounting practice, for the adoption of appropriate measures for the insurance of property and for the prevention and identification of fraud and other irregularities or unlawfulness.

The tax authorities may at any time within 5 years from the day of the tax charge verify the operations of the company, which in turn may cause the obligation of an additional tax payment, default interest payment and penalty from Corporate Income Tax or other taxes or duties. The Management Board is not aware of any circumstances, which could result in any such potentially significant obligation.

Management Board

| | | | | |
|---|---|---|---|---|
| **Robert Kleindienst** | **Marko Jazbec** | **Claude Deroose** | **David Benedek** | **Božo Jašovič** |
| Member of the Management Board | Member of the Management Board | Member of the Management Board | Member of the Management Board | President of the Management Board &CEO |

# Notes to financial statements

## 1. GENERAL INFORMATION

Nova Ljubljanska banka d.d., Ljubljana ("the Bank" or "NLB") is incorporated in Slovenia as a joint stock company providing universal banking services. The largest shareholders of Nova Ljubljanska banka d.d. are the Republic of Slovenia, owning 33.10% of the shares, and KBC Bank N.V., Brussels ("KBC Bank"), owning 30.57% of the shares.

The address of its registered office is: Nova Ljubljanska banka d.d., Ljubljana, Trg republike 2, Ljubljana.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the financial statements are set out below:

### 2.1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Separate financial statements of the Bank have been prepared in addition to consolidated financial statements according to the requirements of local legislation.

The Bank has also prepared consolidated financial statements in accordance with IFRS as adopted by the EU for the Bank and its subsidiaries (the Group). In the consolidated financial statements, subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has the power to exercise control over the operations, have been fully consolidated. The consolidated financial statements can be obtained from the Bank's registered office.

Users of these stand alone financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2009 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

### 2.2. Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale financial assets, 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 conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised Critical accounting estimates are disclosed in note 2.26.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

### 2.3. Foreign currency translation

**Functional and presentation currency**
Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in euros, which is the Bank's functional and presentation currency.

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

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

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 in the revaluation reserve in other comprehensive income.

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.

### 2.4. Interest income and expense

Interest income and expense are recognized in the income statement for all interest-bearing instruments on an accruals basis using the effective yield method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income includes coupons earned on fixed income investment and trading securities, accrued discounts and premiums on securities and interest from interest rate swaps. The calculation of effective interest rate includes all fees and points paid or received between parties to the contract and all transaction costs but does not consider future credit losses. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense from all financial assets and liabilities are disclosed as part of net interest income.

### 2.5. Fee and commission

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

### 2.6. Dividend income

Dividends are recognized in the income statement when the Bank's right to receive payment is established.

### 2.7. Financial instruments

#### a) Classification

Classification of financial instruments at initial recognition depends on instrument's characteristics and management intention. In general a bank follows the next criteria:

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

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

The Bank designates a financial instrument as at fair value through profit or loss when:

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

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

**Held to maturity investments**
Held to maturity investments are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity.

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

#### b) Measurement and recognition

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

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

Regular way purchases and sales of financial instruments at fair value through profit or loss, held to maturity and available for sale, are recognized on trade date. Loans are recognized when cash is advanced to the borrowers. All other purchases and sales are recognized as derivative forward transactions until settlement.

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

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

**c) Day one profit**

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

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or is based on a valuation technique whose variable include only data from observable markets, the Bank recognizes the difference between the transaction price and fair value in the income statement (day one profit or loss). In cases where the data used for valuation is not "fully marketable" day one profits are not recognized.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of 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 receivables can be reclassified out of 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 held for trading category only in rare circumstances. Additionally instruments designated at fair value trough profit and loss and instruments held to maturity cannot be reclassified.

**e) Derecognition**

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

**f) Fair value measurement principles**

The fair value of quoted financial instruments in active markets is based on current bid price at the balance sheet 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.

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

**g) Derivative financial instruments and hedge accounting**

Derivative financial instruments, including forward and futures contracts, swaps and options, are initially recognized on the balance sheet at fair value. Derivative financial instruments are subsequently remeasured 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 favorable to the Bank, and within liabilities when unfavorable to the Bank. Changes in fair value are determined on a clean price basis. Interest accruals are recorded separately from fair value measurement.

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

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

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

The Bank 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 Bank 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. Actual results of the hedge must always fall within a range of 80 – 125 percent.

**Fair value hedge**

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity and recorded as net interest income. The adjustment to the carrying amount of a hedged equity security is included in the income statement when the equity security is disposed of as part of the gain or loss on the sale.

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

Amounts accumulated in equity are recognized in 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 the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

**Derivatives that do not qualify for hedge accounting**
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of such derivative instruments are recognized immediately in the income statement within "Gains less losses on financial assets and liabilities held for trading".

## 2.8. Impairment of financial assets

### a) Assets carried at amortized cost

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

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

- Delinquency in contractual payments of principal or interest,
- Cash flow difficulties experienced by the borrower,
- Breach of loan covenants or conditions,
- Initiation of bankruptcy proceedings,
- Deterioration of the borrower's competitive position,
- Deterioration in the value of collateral and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three and six months.

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognized in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Calculating the present value of the estimated future cash flows of collateralized financial assets reflects the cash flows that may result from foreclosure, less the cost of obtaining and selling the collateral, whether or not foreclosure is probable.

To collectively evaluate impairment, the Bank uses migration matrices, which show expected migration of customers between internal rating classes. The probability of migration is assessed on the basis of past years' experience, that is annual migration matrices for different types of customers. Exposures to individuals are additionally analyzed with regard to type of products. Based on the migration matrices and assessment of average repayment rate for D and E rated customers, the Bank recognizes impairment losses also for clients that currently show no signs of impairment, but on the basis of past experience the Bank justifiably estimates that some losses have already incurred.

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

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

Objective criteria that the Bank uses to determine that a loan should be written off include:

- The debtor no longer performs his regular activities (termination of the legal entity),
- The Bank holds no adequate collateral to be used for repayment and
- Judicial recovery proceeding have concluded.

### b) Assets classified as available for sale

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

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

Bank considers the following factors in determining impairment losses on debt instruments:

- Default or delinquency in interest or principle payments,
- Liquidity difficulties of the issuer,
- Breach of contract covenants or conditions,
- Bankruptcy of the issuer,
- Deterioration of economic and market conditions and
- Deterioration in the credit rating of the issuer (bellow the acceptable level).

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

### c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated due to deterioration of the borrower's financial position are no longer considered to be past due but are treated as new loans. Such loans continue to be discounted using the original effective interest rate. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

### d) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are initially recognized in the financial statements at their fair values and are sold as soon as practicable in order to reduce outstanding indebtedness (note 6.1.i). After initial recognition they are measured at fair value.

## 2.9. 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 set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## 2.10. 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 to 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 repledge 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.

## 2.11. Investments in subsidiaries, associated and jointly controlled companies

Investments in subsidiaries, associated and jointly controlled companies are accounted for using the cost method.

Under the cost method the investor recognizes a dividend from subsidiary, jointly controlled entity or associate in profit or loss when its right to receive the dividend is established.

## 2.12. Property and equipment

All property and equipment is initially recognized at cost. Subsequently it is measured at cost less accumulated depreciation and any accumulated impairment loss.

Each year the Bank assesses whether there are indications that assets may be impaired. If any such indication exists, the Bank estimates the recoverable amount. The recoverable amount is the higher of net selling price and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the recoverable amount is below the carrying value, the difference is recognized as a loss in the income statement.

Depreciation is provided on a straight-line basis over their estimated useful lives. The following are approximations of the annual rates used:

| | % |
|---|---|
| Buildings | 3 |
| Computers | 14.3–25 |
| Furniture and equipment | 10–20 |
| Motor vehicles | 20 |
| Leasehold improvements | 5–20 |

Assets in the course of transfer or construction are not depreciated until they are available for use.

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred.

Day-to-day servicing costs are recognized in profit or loss as incurred. Subsequent costs that increase future economic benefits are recognized in the carrying amount of an asset.

## 2.13. Intangible assets

Intangible assets, which relate solely to software licenses, are stated at cost, less accumulated amortization and impairment losses.

Amortization is provided on a straight-line basis at rates designed to write off the cost of software over its estimated useful life. Core banking systems are amortized over a period of 10 years and other software over a period of three to five years.

Assets in the course of transfer or construction/implementation are not amortized until they are available for use.

### 2.14. Investment property

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

### 2.15. Non-current assets held for sale

Non-current assets 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 regarded as 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 classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. The effects of sale and valuation are included in the income statement as profit or loss from non - current assets held for sale.

### 2.16. Accounting for leases

**• Where the Bank is the 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 recognized as an expense in the period in which termination takes place.

Leases of property and equipment where the Bank has substantially all of the risks and rewards of ownership are classified as finance leases. Financial leases are recognized as an asset and liability at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term. Lease payments are apportioned between finance charge and the reduction of the outstanding liability.

At the moment the Bank has no assets held under finance lease.

**• Where the Bank is the lessor**

All leases in which the Bank is the lessor are operating leases. Payments are recognized as an 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 an investment property.

### 2.17. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank except for obligatory reserve, securities held for trading, loans to banks and debt securities not held for trading with original maturity of up to 90 days.

### 2.18. Borrowings

Borrowings are recognized initially at fair value, that is their issue proceeds (fair value of consideration received) net of transaction cost incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

If the Bank purchases its own debt, it is removed from the statement of financial position. Difference between the carrying amount of the purchased debt and the amount paid is recognized immediately in the income statement.

### 2.19. Provisions

Provisions are recognized when the Bank 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.

### 2.20. Financial guarantee contracts

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

Financial guarantee contracts are initially recognized at fair value which is equal to the fee received. Fee is amortized to the income statement by using the straight-line method. The Bank's liabilities under guarantees are subsequently measured:

- At the higher of the initial measurement, less amortization calculated to recognize fee income and
- The best estimate of the expenditure required to settle the obligation.

### 2.21. Inventories

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

## 2.22. Taxation

Slovenian income tax is calculated on taxable profits at the rate prescribed by the Corporate Income Tax Law. Tax rate for 2009 is 21%, following that year income tax rate will stabilize at 20%, based on current Income Tax Law.

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

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

Deferred tax related to fair value re-measurement of available for sale investments and cash flow hedges is charged or credited directly to other comprehensive income and subsequently recognized in the income statement together with the deferred gain or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled. At each balance sheet date a Bank reviews the carrying amount of deferred tax assets and assesses future taxable profits that can be used to utilize temporary taxable differences.

In the year 2009 the Bank recorded net loss as a result of financial crisis. The deferred tax assets recognized at 31 December 2009 have been based on future profitability assumptions and business plans for coming years. In the event of changes to these assumptions, the tax assets may be adjusted.

Deferred tax asset for temporary differences arising from investments in subsidiaries, associated and jointly controlled companies are recognized to the extend that, and only to the extent that, it is probable that:

- The temporary difference will reverse in the foreseeable future and
- Taxable profit will be available.

In year 2009 the Bank didn't recognized deferred tax asset for impairment of investments in subsidiaries (see note 5.14.a).

## 2.23. Fiduciary activities

The Bank provides Asset Management services to its clients. Assets held in a fiduciary capacity are not reported in the Bank's financial statements, as they do not represent assets of the Bank. Fee and commission income charged for this type of service is divided by items in note 4.3.b). Further details on transactions managed on behalf of third parties are disclosed in note 5.28.

Based on the requirements of local legislation, Bank has additionally disclosed in note 5.28 assets and liabilities on accounts used to manage cash assets from fiduciary activities, for example information related to receipt, processing and execution of orders and related custody activities.

## 2.24. Employee benefits

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long-service benefits.

Valuations of these obligations are carried out by independent qualified actuaries. The main actuarial assumptions included in the calculation of the obligation for other long-term employee benefits are:

- Applicable discount rate (7.75%),
- Number of employees eligible for benefits (all employees of the Bank) and
- Future salary increases using general salary inflation index, promotions and increases in salaries according to past years of service (4.75%).

According to Slovenian legislation, employees retire after 35-40 years of service, when, if they fulfill certain conditions, they are entitled to an indemnity paid in lump sum. Employees are also entitled to a long service bonus for every ten years of service.

These obligations are measured at the present value of future cash outflows. All gains and losses are recognized in the income statement.

The Bank contributes to the State Pension Scheme (8.85% of gross salaries). The Bank makes payments to a contribution plan according to Slovenian legislation. Once contributions have been paid, the Bank has no further payment obligation. The regular contributions constitute net periodic costs for the year in which they are due and are included in employee costs as they are incurred.

Provisions for termination benefits are provided as a result of an offer made to employees in order to encourage retirements before the normal retirement date.

## 2.25. Share capital

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

**Treasury shares**
Where the Bank purchases treasury shares, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in shareholders' equity. If some of the Bank's shares are held by the Bank or its subsidiaries, the Bank is obliged to have reserves for treasury shares.

**Share issue costs**
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

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

### a) Impairment losses on loans and advances

The Bank reviews its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. Individual estimates are based on future cash flows assessed by accounting officers using all relevant information on counterparty and its ability to meet specific obligations. Low-value exposures are reviewed on the pool basis. This includes all loans to individuals. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank uses sensitivity analysis to assess the impact of relatively less probable negative events on impairment and provisions. The results of the simulation shown in the table below are based on the value of loans, impairment and provisions as of 31 December 2009 and provide an assessment of required impairment and provisions within one year assuming the realization of each scenario. The assessments are based on three different scenarios:

**I. Basic stress scenario:**
The first scenario incorporates internal expert predictions on the deterioration of loan portfolio based on the variation of CR (coverage of non-performing loan portfolio with total impairment and provisions) and % NPL (percentage of non-performing loans). The scenario assumes a decrease of CR to 90% and an increase of the NPL (non-performing loan) percentage to 7.5% within a one-year period. As at 31 December 2009 percentage of NPL was 4.49% and percentage of CR was 105.75%.

**II. Scenario of changing % NPL (percentage of non-performing loans):**
The second scenario assumes an increase of NPL with an average monthly index of 104.98% in the next twelve months; the assumption is based on historic data from the last twenty months (between 31 March 2008 and 31 December 2009). At the same time CR gradually decreases to 90%.

**III. Stress test based on transition matrices:**
In the third scenario historic transition matrices for financial institutions and legal entities were used. Matrices for legal entities were also used for private persons, whereas the exposure to the central government was not subjected to a stress test. The methodology used is extrapolation based on average transition matrices, which were calculated for the period of credit portfolio deterioration. Furthermore the matrices were corrected in a manner that excludes a possibility of client upgrade.

**Table:** Results of three portfolio deterioration scenarios

| | Total loans | Loan impairment and provisions | Coverage of loans with impairment and provisions (in %) |
|---|---|---|---|
| 31.12.2009 | 11,323,325 | 537,328 | 4.75 |
| I. scenario | 11,323,325 | 764,324 | 6.75 |
| II. scenario | 11,323,325 | 819,086 | 7.23 |
| III. scenario | 11,323,325 | 873,328 | 7.71 |

All three scenarios assume a fixed total exposure amount. The impact of stress scenarios results in impairment and provisions increase within a one-year period and impact the coverage of loans with impairment and provisions. The first scenario requires a 42% increase of impairment and provisions, the second requires an additional 52%, and the third scenario requires an increase of impairment and provisions from Euro 537 million to Euro 873 million (by 63%).

### b) Fair value of financial instruments

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads. Changes in assumptions about these factors could affect reported fair values of trading assets and liabilities and available for sale financial assets.

The Bank measures fair values of derivative financial instruments by using market prices (Mark to Market), in accordance with the Methodology for Valuation of Derivative Financial Instruments. Foreign exchange rates, interest rates and volatility curves are based on the Market Snapshot principle. Market data is saved daily at 4 p.m. and later used for calculation of fair values (Market value, NPV) of derivative financial instruments. For valuation of derivatives the Bank applies market yield curves.

### c) Impairment of available for sale equity investments

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In 2009 NLB recorded impairment loss on investments in the amount of Euro 4.8 million (2008: in the amount of Euro 60.6 million).

### d) Held to maturity investments

The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity investments. Before making this classification the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value not amortized cost. If the entire class of held to maturity investments is tainted, the fair value would increase by Euro

18,927 thousand (31 December 2008: increase by Euro 12,054 thousand), with a corresponding entry in the fair value reserve in shareholders' equity.

**e) Impairment of investments in subsidiaries, associated and jointly controlled entities**

The process of identifying and evaluating impairment is inherently uncertain because it require significant management judgment in making a series of estimates, the results of which are relatively sensitive to the assumptions used. The review of impairment represents management's best estimate of the factors such as:

- Future cash flows of the investments are sensitive to the cash flow projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flow thereafter. The cash flow used represent management's view of future business prospects at the time of assessment.
- Discount rate derived from a Capital Asset Pricing Model and used to discount future cash flows is based on the cost of equity assigned to an individual investment. Discount rate reflects range of financial and economic variables including risk free rate and risk premium. The variables are subject to fluctuations outside management's control.

Management believes that the sensitivity analysis of impairment testing is adequately robust to reasonably possible changes in underlying assumptions.

**f) Income taxes**

The deferred tax assets recognized at 31 December 2009 have been based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognized may be changed.

**g) Employee benefits**

The present value of the employee benefits depends on factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the obligation. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to settle the obligation. In determining the appropriate discount rate, the Bank considers the interest rate of high quality corporate bonds.

**h) Investment properties**

Management estimates the fair values of investment properties by discounting expected net rentals at market yields.

**2.27. Adoption of new and revised International Financial Reporting Standards**

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are effective for accounting periods beginning on 1 January 2009.

The following new standards and amendments to standards have been early adopted:

- IFRS 3 (amendment), Business Combinations and consequential amendments to IAS 27 (amendment), Consolidated and Separate Financial Statements, IAS 28 (amendment), Investments in Associates and IAS 31(amendment), Interests in Joint Ventures, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition by acquisition basis, to measure the non controlling interest in the acquiree either at fair value or at non controlling interest's proportionate share of the acquireer's net assets. All acquisition related costs should be expensed. This will enhance the relevance, reliability and comparability of information about business combinations, transactions with non controlling shareholders, changes of the entity's status and their effects on financial statements. The most important impact on consolidated financial statements of amended standards relates to treatment of transactions with non controlling owners. All effects of such transactions are recognized within equity without any changes of goodwill. This amendment does not impact separate financial statements.

Accounting standards and amendments to existing standards effective on or after 1 January 2009 that were endorsed by EU:

- IFRS 2 (Amendment) Share based payment – Vesting conditions and cancellations. The changes pertain mainly to the definitions of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non vesting conditions are not fulfilled. The amendment does not effect on the Banks financial statements.
- IFRS 5 (Amendment) - Non-current Assets Held for Sale and Discontinued Operations. The amendment proposes that all assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary. The amendment also clarifies the relevant disclosures for subsidiary required for discontinued operations. The amendment does not effect on the Banks financial statements.
- IFRS 7 (Amendment) - The amendment requires enhanced disclosures about fair value measurements of financial instruments and liquidity risk management. In particular the amendment requires disclosure of fair value measurement by level of a fair value measurement

hierarchy. The amendment does not effect the Bank's operations, but it requires additional disclosures.

- IFRS 8 - Operating segments. IFRS 8 replaces IAS 14. It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes to the group executive board, which makes decisions on the allocation of resources and assess the performance of the reportable segments. It does not effect the Bank's operations and disclosures, since segment reporting is disclosed only in consolidated financial statements.
- IAS 1 (Amendment) - Presentation of financial statements. The amendment to the standard requires entities to present all non-owner changes in equity either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Each component of equity, including each item of other comprehensive income, should be reconciled between the carrying amount at the beginning and the end of the period. The amendment also requires presenting a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. The amendment impacts presentation aspects.
- IAS 16 (Amendment) - Property, Plant and Equipment and consequential amendment to IAS 7 - Statement of Cash Flows. Entities whose primary activities comprise renting and subsequently selling assets should present proceeds from the sale of those assets as revenue. Such assets should be classified as inventories from the point that the assets cease to be leased and become held for sale. A consequential amendment to IAS 7 states that cash flows arising from the purchase, rental and sale of such assets are classified as cash flows from operating activities. The amendment impacts presentation aspects.
- IAS 19 (Amendment) - Employee Benefits. The amendment clarifies the distinction between short-term and long-term employee benefits and supplements the definition of benefit obligation. The amendment achieves consistency with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, which states that contingent liabilities should not be recognized, but should be disclosed. The amendment does not effect the Bank's financial statements.
- IAS 20 (Amendment) - Accounting for Government Grants and Disclosure of Government Assistance. The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment does not effect the Bank's financial statements.
- IAS 23 (Amendment) - Borrowing costs. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The definition of borrowing costs has been amended and adjusted to method in IAS 39 - Financial Instruments: Recognition and Measurement. Consequently the borrowing costs are measured according to the effective interest rate method. The amendment does not have a material effect on the Bank's financial statements.
- IAS 28 (Amendment) - Investments in Associates and consequential amendments to IAS 32 - Financial Instruments: Presentation and IFRS 7 Reclassification of Financial Assets. The amendment proposes that an investment in an associate should be treated as a single asset for impairment testing. The impairment is not allocated to any assets included within the investment, for example goodwill. Accordingly, reversals of this impairment should be recognized as an adjustment to the investment to the extent that the recoverable amount of the associate increases. The amendment does not effect the Bank's financial statements.
- IAS 29 (Amendment) - Financial Reporting in Hyperinflationary Economies. The amendment to the standard requires that types of assets and liabilities should be measured at fair value and not by the historical cost approach. The amendment does not effect the Bank's financial statements.
- IAS 32 (Amendment) - Puttable Financial Instruments and Obligations Arising on Liquidation and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. Puttable financial instruments that present a residual interest in the net assets of the entity are now classified as equity provided that specific conditions are met. Similar to those requirements is the exception to the definition of financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. The amendment does not effect the Bank's financial statements.
- IAS 36 (Amendment) - Impairment of Assets. The amendment requires increased disclosures if fair value less costs to sell is calculated on the basis of discounted cash flows. The amendment impacts disclosure aspects.
- IAS 38 (Amendment) - Intangible Assets. The amendment clarifies that expenditure on advertising and promotional activities can only be recognized as an expense at the time that the benefit of the goods or services becomes available to the entity. The standard no longer contains the provision that states that there is 'rarely, if ever' existence of founded reason for using an amortization method that allows lower rates than straight-line amortization method. The amendment does not effect the Bank's financial statements.
- IAS 39 (Amendment) - Financial instruments: Recognition and Measurement. The amendment clarifies that it is possible to reclassify derivatives used as a hedging instrument into and out of the fair value through profit or loss category in specific circumstances. The amendment permits the designation of assets, liabilities, firm commitments or highly probable forecast transactions as hedged items only when they involve a party external to the entity. When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used. This will not give rise to any changes to the Bank's financial statements.
- IAS 40 (Amendment) - Investment Property and consequential amendment to IAS 16 - Property, Plant and Equipment. Property that is under construction or development for future use as investment property is classified as investment property. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date

construction is completed or the date at which fair value becomes reliably measurable. The amendment does not effect the Bank's financial statements.

- IFRIC 15 - Agreements for the Construction of Real Estate. This interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It does not have any impact on the Bank's financial statements.
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008). The interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that the net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. It does not have impact on the Bank's financial statements.

Accounting standards and amendments to standards issued but not yet effective:

The following standards and interpretations have been issued and are mandatory for the accounting periods beginning on or after 1 July 2009.

- IFRS 1 and IAS 27 (Amendment) - Cost of an investment in a subsidiary, jointly controlled entity or associate. The amended standard allows first time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor. The amendment will not impact the Bank's financial statements.
- IAS 39 (Amendment) – Financial instruments: Recognition and measurement – Eligible hedged items. The amendment provides guidance for two situations. With the designation of a one sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted expect in particular situations. This will note give rise to any changes to the Bank's financial statements.
- IFRIC 17 – Distributions of non cash assets to owners. This addresses how the non cash dividends distributed to shareholders should be measured. A dividend obligation is recognized when the dividend was authorized by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognized at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognized in profit and loss.The application of IFRIC 17 will have no impact on the financial statements of the Bank.
- IFRIC 18 - Transfer of assets from customers. This clarifies how to account for transfer of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must than use that item to provide the customer with ongoing access to the supply of goods and or services. The Bank is not impacted by applying IFRIC 18.
- IFRIC 19 – Extinguishing financial liabilities with equity instruments. It classifies the requirements at IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Bank is not impacted by IFRIC 19.
- IFRS 9 – Financial instruments part 1: Classification and measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The key features are as follows:
    - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
    - An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only basic loan features). All other debt instruments are to be measured at fair value through profit or loss.
    - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity instruments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument by instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
    - Adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption.

## 3. EVENTS AFTER REPORTING DATE

In March 2010 Supervisory Board of NLB d.d. approved merger with subsidiary company LHB Finance d.o.o. Merger will be formally registered in May 2010 with the accounting date of merger as at 31 December 2009.

# 4. NOTES TO THE INCOME STATEMENT

## 4.1. Interest income and expenses

### Analysis by type of assets and liabilities

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Interest and similar income | | |
| Loans and advances to customers | 476,640 | 606,733 |
| Available for sale financial assets | 46,779 | 66,021 |
| Loans and advances to banks | 25,430 | 72,841 |
| Financial assets held for trading | 28,390 | 38,553 |
| Held to maturity investments | 22,457 | 22,106 |
| Derivatives - hedge accounting | 22,837 | 5,382 |
| Deposits with Central Bank | 2,152 | 6,620 |
| **TOTAL** | **624,685** | **818,256** |
| | | |
| Interest and similar expenses | | |
| Due to customers | 184,096 | 210,637 |
| Borrowings from banks | 79,096 | 202,573 |
| Subordinated liabilities | 25,017 | 50,638 |
| Deposits from banks | 6,033 | 29,987 |
| Debt securities in issue | 41,955 | 21,378 |
| Financial liabilities held for trading | 18,917 | 12,933 |
| Derivatives - hedge accounting | 20,099 | 4,498 |
| Borrowings from other customers | - | 12 |
| **TOTAL** | **375,213** | **532,656** |
| | | |
| **NET INTEREST** | **249,472** | **285,600** |

Interest income accrued on impaired financial assets in 2009 is Euro 5,239 thousand (2008: Euro 4,209 thousand).

## 4.2. Dividend income

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Investments in subsidiaries, associated companies and joint ventures | 30,316 | 35,430 |
| Financial assets held for trading | 922 | 1,414 |
| Available for sale financial assets | 909 | 823 |
| **TOTAL** | **32,147** | **37,667** |

## 4.3. Fee and commission income and expenses

### a) Fee and commission income and expenses relating to activities of the Bank

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Fee and commission income | | |
| Payments | 39,983 | 42,165 |
| Agency services | 33,934 | 35,113 |
| Administrative services | 47,727 | 46,356 |
| Guarantees | 15,182 | 15,809 |
| Depositing valuables in safe custody | 674 | 675 |
| Other services | 292 | 234 |
| **TOTAL** | **137,792** | **140,352** |
| Fee and commission expenses | | |
| Banking services | 17,372 | 16,160 |
| Agency services | 7,841 | 6,959 |
| Brokerage | 327 | 462 |
| Payments | 626 | 581 |
| **TOTAL** | **26,166** | **24,162** |
| **NET BANK ACTIVITY FEE AND COMMISSION INCOME** | **111,626** | **116,190** |

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

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Fee and commission income related to fiduciary activities | | |
| Receipt, processing and execution of orders | 552 | 1,381 |
| Management of financial instruments portfolio | 641 | 832 |
| Investment advice | 24 | 136 |
| Initial or subsequent underwriting and/or placing of financial instruments on a firm commitment basis | 60 | - |
| Initial or subsequent underwriting and/or placing of financial instruments without a firm commitment basis | 401 | 381 |
| Custody and similar services | 2,914 | 3,635 |
| Management of clients' account of non-materialized securities | 275 | 171 |
| Safekeeping of clients' financial instruments | 3 | 3 |
| Advice to companies on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of companies | 123 | 104 |
| **TOTAL** | **4,993** | **6,643** |
| Fee and commission expenses related to fiduciary activities | | |
| Fee and commission related to Central Securities Clearing Corporation and similar organizations | 1,219 | 1,661 |
| Fee and commission related to stock exchange and similar organizations | 51 | 82 |
| **TOTAL** | **1,270** | **1,743** |
| **NET FEE INCOME RELATED TO FIDUCIARY ACTIVITIES** | **3,723** | **4,900** |
| **Total fee and commission income** | **142,785** | **146,995** |
| **Total fee and commission expenses** | **27,436** | **25,905** |
| **TOTAL a) and b)** | **115,349** | **121,090** |

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

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Available for sale financial assets | 3,543 | 14,338 |
| Financial liabilities measured at amortized cost | - | 430 |
| **TOTAL** | **3,543** | **14,768** |

Foreign exchange translation net losses on financial assets and liabilities not classified as at fair value through profit or loss, amounted to Euro 5,142 thousand in 2009 (2008: net gains Euro 39,534 thousand).

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

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Equity instruments | 10,194 | (47,759) |
| Debt instruments | (1,286) | 6,414 |
| Foreign exchange trading | 1,089 | 4,114 |
| Derivatives | | |
| • currency | 5,040 | (28,943) |
| • interest rate | 1,029 | (15,647) |
| • cross currency interest rate | (345) | (4,321) |
| • securities | (4,567) | 19,757 |
| • other | 55 | (235) |
| **TOTAL** | **11,209** | **(66,620)** |

The Bank uses currency derivatives to hedge its currency exposure. For this purpose their effects need to be considered in relation to currency exchange differences within the Income statement. From the business perspective these derivatives represent effective hedging instruments that are not accounted for using hedge accounting principles. In the Bank's financial statements they are accounted for as financial instruments held for trading.

## 4.6. Other operating income

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Income from non-banking services | | |
| • information technology | 9,761 | 7,657 |
| • transportation | 3,914 | 3,936 |
| • other services | 2,172 | 2,126 |
| Rental income from investment property | 102 | 75 |
| Revaluation of investment property to fair value (note 5.12.) | - | 177 |
| Other operating income | 2,555 | 4,610 |
| **TOTAL** | **18,504** | **18,581** |

Other income includes bonuses from insurance premiums and compensated court taxes.

## 4.7. Other operating expenses

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Membership fees | 1,335 | 1,531 |
| Taxes and other compulsory public revenues | 72 | 201 |
| Other operating expenses | 798 | 622 |
| **TOTAL** | **2,205** | **2,354** |

## 4.8. Administrative expenses

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Employee costs: | | |
| • gross salaries | 112,328 | 115,826 |
| • pension security contributions | 8,711 | 8,644 |
| • social security contributions | 7,513 | 7,485 |
| • employee benefits (note 5.20.c) | 5,125 | 5,255 |
| | | |
| Other general administrative expenses: | | |
| • services | 41,797 | 41,352 |
| • material | 7,923 | 10,002 |
| • maintenance | 11,918 | 10,520 |
| • rents | | |
| • property | 3,259 | 4,065 |
| • software | 5,952 | 6,037 |
| • advertising | 4,259 | 5,255 |
| • insurance | 3,744 | 3,774 |
| • consulting services | 2,838 | 3,071 |
| • travel costs | 2,258 | 2,455 |
| • education and scholarships | 933 | 1,454 |
| • entertainment expenses | 1,054 | 1,662 |
| • other administrative expenses | 41 | 42 |
| **TOTAL** | **219,653** | **226,899** |

The number of employees in the Bank as at 31 December 2009 was 4,050 (31 December 2008: 4,097).

### External audit services

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Audit of annual report | 255 | 287 |
| Other audit services | 255 | - |
| Tax consulting | 58 | 38 |
| Other non-audit services | 57 | 19 |
| **TOTAL** | **625** | **344** |

External audit services include payments to statutory auditor in the amount of Euro 500 thousand (2008: Euro 271 thousand).

## 4.9. Depreciation and amortization

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Depreciation of property and equipment (note 5.11.) | 16,599 | 17,595 |
| Amortization of intangible assets (note 5.13.) | 17,128 | 17,301 |
| **TOTAL** | **33,727** | **34,896** |

## 4.10. Provisions for other liabilities and charges

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Guarantees and commitments (note 5.20.b) | 165 | (12,786) |
| Provisions for premiums from National Saving Scheme (note 5.20.d) | 1,810 | 14 |
| Other provisions (note 5.20.e) | - | 1,815 |
| **TOTAL CHARGE/(RELEASE)** | **1,975** | **(10,957)** |

## 4.11. Impairment charge

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Impairment of financial assets | | |
| Available for sale financial assets (note 5.4.c) | 4,814 | 60,664 |
| Loans and advances to banks (note 5.16.b) | 1,950 | 670 |
| Loans to government (note 5.16.b) | 78 | 187 |
| Loans to financial organizations (note 5.16.b) | 7,857 | 855 |
| Loans to individuals (note 5.16.a) | | |
| • granted overdrafts | 3,300 | (727) |
| • loans for houses and flats | 7,086 | 6,080 |
| • consumer loans | 7,273 | 5,230 |
| • other loans | 307 | 158 |
| Loans to other customers (note 5.16.b) | | |
| • loans to large corporate customers | 79,785 | 21,301 |
| • loans to small and medium size enterprises | 40,401 | 41,737 |
| Other financial assets (note 5.16.b) | 5,420 | 1,546 |
| **TOTAL** | **158,271** | **137,701** |
| | | |
| Impairment of other financial assets | | |
| Impairment of investments in subsidiaries (note 5.14.) | 35,809 | - |
| **TOTAL** | **35,809** | **-** |
| | | |
| **IMPAIRMENT TOTAL** | **194,080** | **137,701** |

## 4.12. Income tax expense

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Tax on profit | 1,917 | 16,414 |
| Deferred tax (note 5.21.) | (1,136) | (9,567) |
| **TOTAL** | **781** | **6,847** |

| The tax on Bank's profit before tax differs from theoretical amount that would arise using the basic tax rate of the Bank as follows: | | |
|---|---|---|
| (Loss)/profit before tax | (22,840) | 56,035 |
| Tax calculated at rate 21% (2008: 22%) | (4,796) | 12,328 |
| Income not assessable for tax purposes | (5,993) | (8,161) |
| Expenses not deductible for tax purposes | 12,358 | 2,536 |
| Income which increases taxable basis | 110 | 62 |
| Other | (898) | 82 |
| **TOTAL** | **781** | **6,847** |

Income not assessable for tax purposes relates mainly to dividend income, which can be, if fulfilling all requirements of the Corporate Income Tax Law, can be eliminated from the tax base.

The expenses not deductable for tax purposes in 2009 relate to impairment of investment in subsidiaries (see note 5.14.a).

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances that may give rise to a potential material liability in this respect.

## 4.13. Earnings per share

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

| | 2009 | 2008 |
|---|---|---|
| Net (loss)/profit (expressed in thousand of euro) | (23,621) | 49,188 |
| Weighted average number of ordinary shares (in thousand) | 8,871 | 8,402 |
| Basic and diluted (loss)/earnings per share (expressed in euros per share) | (2.7) | 5.9 |

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

# 5. NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 5.1. Cash and balances with Central Bank

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Cash | \99,499 | 105,777 |
| Balances with the Central Bank other than obligatory reserve | 131,185 | 60,063 |
| **Included in cash and cash equivalents** | **230,684** | **165,840** |
| | | |
| Obligatory reserve with Central bank | 151,303 | 141,410 |
| **TOTAL** | **381,987** | **307,250** |

The Bank is required to maintain an obligatory reserve with the Bank of Slovenia, relative to the volume and structure of its customer deposits.

The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as obligatory reserve is 2% of all time deposits with maturity up to two years.

## 5.2. Trading assets

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Derivatives, excluding hedges** | | |
| Future contracts | | |
| • currency futures | 135 | - |
| • interest rate futures | 85 | 14 |
| Forward contracts | | |
| • currency forward | 659 | 4,995 |
| • cross currency interest rate forward | 7 | - |
| • securities forward | 10,173 | 8,883 |
| Options | | |
| • currency options | 6,099 | 9,184 |
| • interest rate options | 1,610 | 1,801 |
| • securities options | 11,555 | 10,747 |
| Swap contracts | | |
| • currency swaps | 3,179 | 5,230 |
| •interest rate swaps | 33,450 | 21,115 |
| • cross currency interest rate swaps | 487 | 590 |
| **Total derivatives** | **67,439** | **62,559** |
| | | |
| **Securities** | | |
| Bonds | | |
| • Republic of Slovenia | 1,470 | 16,645 |
| • banks | 4,204 | 22,849 |
| • other issuers | 8,968 | 96,470 |
| Shares | 68,537 | 79,157 |
| Commercial bills | 199,965 | 180,888 |
| Other securities | 458 | 865 |
| **Total securities** | **283,602** | **396,874** |
| | | |
| **TOTAL** | **351,041** | **459,433** |

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

The following table shows the carrying values at 31 December 2009 and fair values of the assets reclassified:

| | Fair value at the date of reclassification | Carrying amount as at 31 December 2009 | Far value as at 31 December 2009 |
|---|---|---|---|
| Financial assets held for trading reclassified to loans and receivables | 69,925 | 69,794 | 63,350 |

For the years ended 31 December 2009 and 31 December 2008, fair value gains of Euro 179 thousand and Euro 586 thousand, prior to reclassification, were recognized in the income statement on the reclassified bonds.

Effective interest rates on financial assets reclassified into loans and receivables group as at their respective dates of reclassification fell into the range 4.15% - 4.23%. Interest income recognized after reclassification amounted to Euro 2,836 thousand.

Estimated amounts of undiscounted cash flows the Bank expects to recover from reclassified bonds as at the date of reclassification.

| | 1 year or less | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Financial assets held for trading reclassified to loans and receivables | 2,920 | 2,920 | 8,760 | 100,241 | 114,841 |

As at 31 December 2009 securities held for trading amounting to Euro 58,820 thousand were quoted on the stock exchange (31 December 2008: Euro 340,519 thousand).

As at 31 December 2009 and 31 December 2008 the Bank has no trading assets with original maturity up to three months that would be included within cash equivalents.

The total amount of the change in fair value estimated using a valuation technique that was recognized in profit or loss during 2009 was positive in the amount of Euro 14,664 thousand (2008: negative in the amount of Euro 31,606 thousand).

Notional amounts of derivative financial instruments are disclosed in note 5.29.d).

## 5.3. Financial assets designated at fair value through profit or loss

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Private equity fund | 926 | 1,019 |
| Shares | 27,188 | - |
| **TOTAL** | **28,114** | **1,019** |

Financial assets designated at fair value through profit or loss also include private equity fund in the form of venture capital investments. These investments are managed and evaluated on a fair value basis and total return in accordance with the investment strategy which among other terms also defines the required returns and exit strategy.

## 5.4. Available for sale financial assets

### a) Analysis by type of available for sale financial assets

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Bonds | | |
| • Republic of Slovenia | 328,666 | 208,853 |
| • banks | 192,703 | 111,711 |
| • other issuers | 417,900 | 532,331 |
| Shares | 187,413 | 30,978 |
| Treasury bills | | |
| • Republic of Slovenia | 460,644 | 30,878 |
| • other issuers | 804,462 | 813,850 |
| Other securities | 89,867 | - |
| **TOTAL** | **2,481,655** | **1,728,601** |

### b) Analysis of movements

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 1,728,601 | 1,709,916 |
| Additions | 2,636,686 | 2,561,580 |
| Disposals | (1,931,728) | (2,538,899) |
| Interest | 40,610 | 37,226 |
| Exchange differences on monetary assets | (38) | 1,279 |
| Changes in fair values | 12,338 | 18,163 |
| Impairment (note 4.11.) | (4,814) | (60,664) |
| **Balance at 31 December** | **2,481,655** | **1,728,601** |

As at 31 December 2009 the investment securities amounting to Euro 2,380,595 thousand (31 December 2008: Euro 1,709,296 thousand) were quoted on the stock exchange.

As at 31 December 2009 and as at 31 December 2008 the Bank has no available for sale financial assets with original maturity up to three months.

As at 31 December 2009 the Bank has no securities pledged to third parties in sale and repurchase agreements (31 December 2008: Euro 400,682 thousand). For 2008 these securities were presented separately in the statement of financial position as pledged assets.

Impairment of equity securities in the amount of Euro 4,814 thousand (31 December 2008: Euro 60,664 thousand) has been recorded due to decline of prices in Ljubljana Stock Exchange (note 4.11.).

The value of financial assets, available for sale that the Bank obtained by taking possession of collateral held as security and recognized them in the statement of financial position is Euro 156,756 thousand (31 December 2008: nil).

Available for sale financial assets in the amount of Euro 715,057 thousand (31 December 2008: Euro 521,933 thousand) have a remaining contractual maturity of more than twelve months.

### c) Revaluation reserve

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 2,777 | (227) |
| Net gains/(losses) from changes in fair value | 7,524 | (42,501) |
| Losses transferred to net profit on disposal | 1,271 | 46,326 |
| Deferred income tax (note 5.21.) | (1,742) | (821) |
| **Balance at 31 December** | **9,830** | **2,777** |

## 5.5. Derivatives hedge accounting

### a) Fair value hedge

| in thousand of euros | | | |
|---|---|---|---|
| Interest rate swap | Notional amount | Fair value | |
| | | Asset | Liability |
| 31.12.2009 | 2,861,679 | 28,270 | 25,765 |
| 31.12.2008 | 209,695 | 8,093 | 5,587 |

Net losses on hedging instruments amounted to Euro 4,970 thousand in 2009 (2008: gains Euro 3,281 thousand) and gains on hedged items were Euro 4,909 thousand (2008: losses Euro 3,208 thousand).

### b) Cash flow hedge

| in thousand of euros | | | |
|---|---|---|---|
| Interest rate swap | Notional amount | Fair value | |
| | | Asset | Liability |
| 31.12.2009 | 239,455 | 433 | 7,151 |
| 31.12.2008 | 160,667 | 2 | 4,461 |
| **Total a) and b)** | | | |
| **31.12.2009** | **3,101,134** | **28,703** | **32,916** |
| **31.12.2008** | **370,362** | **8,095** | **10,048** |

### Future cash flows

| in thousand of euros | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years |
|---|---|---|---|---|---|
| 31.12.2009 | | | | | |
| • Outflow | (439) | (1,758) | (4,360) | (9,703) | (3,780) |
| • Inflow | 254 | 354 | 1,754 | 6,954 | 3,976 |
| 31.12.2008 | | | | | |
| • Outflow | - | (1,805) | (4,826) | (11,559) | (3,728) |
| • Inflow | - | 1,733 | 3,668 | 8,376 | 3,503 |

### c) Revaluation reserve

A loss on hedging instruments in the amount of Euro 830 thousand (2008: loss Euro 5,157 thousand) was recognized directly in other comprehensive income, as well as the corresponding deferred income tax asset in the amount of Euro 121 thousand (31 December 2008: income tax asset Euro 1,090 thousand). Effect net of tax was loss Euro 709 thousand (2008: loss Euro 4,067 thousand). There was no ineffectiveness that the Bank should have recognized in the income statement. Effects are recycled to net interest income in the income statement.

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | (3,522) | 545 |
| Net losses on hedging instruments | (4,721) | (4,273) |
| Transfer to income statement | 3,891 | (884) |
| Deferred income tax (note 5.21.) | 121 | 1,090 |
| **Balance at 31 December** | **(4,231)** | **(3,522)** |

The Bank implemented two types of hedging relationships for interest rate risk. The most often used solution is fair value micro hedge, but the Bank used cash flow micro hedge as well. The Bank measures hedge effectiveness by using the dollar-offset method.

The Bank hedges its interest rate exposure by using different financial instruments (IRS, FRA, OIS, IR Futures), however, hedge relationships were imposed only in case of hedging by Interest Rate Swaps.

The Bank measures its interest rate exposure by using the repricing gap analysis and by calculating sensitivity of balance sheet and off balance sheet items from economic value of capital point of view. For a portfolio of banking book securities a duration limit is set.

The Bank hedges open positions within individual time buckets and because long positions are more common than short ones, Fair Value Hedges are mainly done for hedging fixed rate assets. Some Cash Flow Hedges were introduced for the same reason - swapping the floating interest rate of certain liabilities into the fixed rate to fund fixed rate assets.

The Bank rarely hedges the fair value of liabilities; however some fixed rate bonds issued were swapped into floating to reduce the repricing gap within certain time buckets.

Cash flows of the hedging instrument match cash flows of the hedging item (principal terms match) in each hedging relationship.

## 5.6. Fair value level of financial instruments, measured at fair value – fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The source of input parameters like yield curve and counterparty credit risk is Reuters.
- Level 3 – Inputs for the asset or liability that are not based on observable market data. This level includes equity investments and derivatives linked to these investments.

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

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

| in thousand of euros | 31.12.2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value |
| **Financial assets** | | | | |
| Financial instruments held for trading: | | | | |
| • Debt instruments | 9,617 | 204,152 | 1,296 | 215,065 |
| • Equity instruments | 49,203 | - | 19,334 | 68,537 |
| • Derivatives | 220 | 56,101 | 11,118 | 67,439 |
| Derivatives for hedging | - | 28,703 | - | 28,703 |
| Financial assets designated at fair value through profit or loss: | | | | |
| • Equity instruments | 27,118 | - | 996 | 28,114 |
| Financial assets available for sale: | | | | |
| • Debt instruments | 2,200,784 | 93,458 | - | 2,294,242 |
| • Equity instruments | 179,811 | - | 7,602 | 187,413 |
| **Financial liabilities** | | | | |
| Financial instruments held for trading: | | | | |
| • Derivatives | 24 | 56,723 | 457 | 57,204 |
| Derivatives for hedging | - | 32,916 | - | 32,916 |

In 2009 there were no transfers of financial instruments between fair value levels of measurement.

### b) Financial instruments valued by 3rd level

| | Financial instruments held for trading | | | Financial assets designated at fair value through profit or loss | Financial assets available for sale | Total financial assets | Financial liabilities held for trading |
|---|---|---|---|---|---|---|---|
| in thousand of euros | Debt instruments | Equity instruments | Derivatives | Equity instruments | Equity instruments | | Derivatives |
| Balance at 1 January 2009 | 2,011 | 19,452 | 10,560 | 1,019 | 11,778 | 44,820 | - |
| Valuation | | | | | | | |
| • through profit or loss | 369 | (152) | 558 | (23) | (4,777) | (4,025) | 50 |
| • recognised in equity (comprehensive income) | - | - | - | - | (326) | (326) | - |
| Purchases | 66 | 34 | - | - | 927 | 1,027 | 407 |
| Sales, issues and settlements | (1.150) | - | - | - | - | (1,150) | - |
| **Balance at 31 December 2009** | **1,296** | **19,334** | **11,118** | **996** | **7,602** | **40,346** | **457** |

## 5.7. Loans and advances to banks

### Analysis by type of advance

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Time deposits | 945,317 | 409,123 |
| Loans | 296,470 | 335,606 |
| Demand deposits | 68,976 | 89,935 |
| Purchased receivables | 7,085 | 16,541 |
| Called guarantees | 91 | 91 |
| | 1,317,939 | 851,296 |
| Allowance for impairment (note 5.16.) | (4,821) | (2,871) |
| **TOTAL** | **1,313,118** | **848,425** |

Loans and advances to banks in the amount of Euro 199,017 thousand (31 December 2008: Euro 240,804 thousand) are expected to be recovered after more than twelve months.

Loans and advances to banks in the amount of Euro 569,757 thousand (31 December 2008: Euro 376,938 thousand) have an original maturity up to three months and are included within cash equivalents.

## 5.8. Loans and advances to customers

### Analysis by type of advance

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Loans | 9,607,352 | 9,722,291 |
| Overdrafts | 259,266 | 250,727 |
| Receivables from cards business | 65,799 | 64,714 |
| Called guarantees | 12,728 | 9,309 |
| Securities purchased under agreements to resell | 6,670 | 31,530 |
| | 9,951,815 | 10,078,571 |
| Allowance for impairment (note 5.16.) | (495,107) | (359,197) |
| **TOTAL** | **9,456,708** | **9,719,374** |

In the case of securities purchased under agreements to resell the Bank records these securities as a collateral (the Bank becomes their legal owner), but the borrower is entitled to coupon interest and dividends. During the presented years the Bank did not sell or repledge any of the securities purchased under agreements to resell.

Loans and advances to customers in the amount of Euro 4,543,186 thousand (31 December 2008: Euro 4,664,680 thousand) are expected to be recovered after more than twelve months.

## 5.9. Held to maturity investments

### a) Analysis by type of held to maturity investments

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Bonds of the Republic of Slovenia | 233,261 | 219,789 |
| Other bonds | 346,055 | 370,611 |
| **TOTAL** | **579,316** | **590,400** |

### b) Analysis of movements

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 590,400 | 479,211 |
| Additions | 55,309 | 189,057 |
| Maturity | (89,074) | (100,385) |
| Interest | 22,681 | 22,517 |
| **Balance at 31 December** | **579,316** | **590,400** |

As at 31 December 2009 and 31 December 2008 all held to maturity investments were quoted on the stock exchange.

Held to maturity investments in the amount of Euro 492,428 thousand (31 December 2008: Euro 509,854 thousand) have a remaining contractual maturity of more than twelve months.

## 5.10. Non-current assets held for sale

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 3,857 | 4,209 |
| Transfer (to)/from property and equipment (note 5.11.) | 4,159 | (30) |
| Disposals | (270) | (161) |
| Valuation | (1,338) | (161) |
| **Balance at 31 December** | **6,408** | **3,857** |

Non-current assets held for sale include business premises which are in the course of sale and assets received as collateral. The amount of non-current assets held for sale that the Bank obtained by taking possession of collateral held as security and recognized them in financial statements is Euro 1,506 thousand (2008: Euro 2,748 thousand).

The effects of valuation and sale are included in the income statement in item Net (loss)/profit from non-current assets held for sale.

## 5.11. Property and equipment

| in thousand of euros | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land & Buildings | Leasehold Improvements | Computers | Furniture & Equipment | Motor Vehicles | Assets in Course of Transfer or Construction/ Implementation | Total |
| Cost | | | | | | | |
| At 1 January | 200,308 | 8,102 | 96,011 | 67,301 | 3,123 | 6,797 | 381,642 |
| Addition | 8,506 | 284 | 5,522 | 2,370 | 357 | - | 17,039 |
| Disposals | (8) | (669) | (8,371) | (5,386) | (233) | (461) | (15,128) |
| Transfer to non-current assets held for sale (note 5.10.) | (291) | - | - | - | - | (3,946) | (4,237) |
| Transfer | 47 | (47) | (6) | 6 | - | - | - |
| **At 31 December** | **208,562** | **7,670** | **93,156** | **64,291** | **3,247** | **2,390** | **379,316** |
| Depreciation | | | | | | | |
| At 1 January | 70,600 | 6,948 | 81,648 | 54,052 | 2,401 | - | 215,649 |
| Disposals | - | (669) | (8,274) | (5,172) | (232) | - | (14,347) |
| Charge for the year (note 4.9.) | 5,854 | 423 | 6,505 | 3,547 | 270 | - | 16,599 |
| Transfer to non-current assets held for sale (note 5.10.) | (78) | - | - | - | - | - | (78) |
| Transfer | 47 | (47) | (3) | 3 | - | - | - |
| **At 31 December** | **76,423** | **6,655** | **79,876** | **52,430** | **2,439** | **-** | **217,823** |
| Net carrying value | | | | | | | |
| **At 1 January** | **129,708** | **1,154** | **14,363** | **13,249** | **722** | **6,797** | **165,993** |
| **At 31 December** | **132,139** | **1,015** | **13,280** | **11,861** | **808** | **2,390** | **161,493** |

| in thousand of euros | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land & Buildings | Leasehold Improvements | Computers | Furniture & Equipment | Motor Vehicles | Assets in Course of Transfer or Construction/ Implementation | Total |
| Cost | | | | | | | |
| At 1 January | 198,167 | 8,079 | 94,506 | 65,098 | 3,423 | 2,590 | 371,863 |
| Addition | 3,697 | 593 | 3,342 | 4,897 | 167 | 4,441 | 17,137 |
| Disposals | (1,165) | (570) | (1,837) | (2,694) | (467) | (234) | (6,967) |
| Transfer from/to non-current assets held for sale (note 5.10.) | 15 | - | - | - | - | - | 15 |
| Transfer to investment property (note 5.12.) | (406) | - | - | - | - | - | (406) |
| **At 31 December** | **200,308** | **8,102** | **96,011** | **67,301** | **3,123** | **6,797** | **381,642** |
| Depreciation | | | | | | | |
| At 1 January | 65,436 | 7,040 | 75,379 | 53,412 | 2,580 | - | 203,847 |
| Disposals | (280) | (536) | (1,740) | (2,638) | (450) | - | (5,644) |
| Charge for the year (note 4.9.) | 5,593 | 444 | 8,009 | 3,278 | 271 | - | 17,595 |
| Transfer to non-current assets held for sale (note 5.10.) | (15) | - | - | - | - | - | (15) |
| Transfer to investment property (note 5.12.) | (134) | - | - | - | - | - | (134) |
| **At 31 December** | **70,600** | **6,948** | **81,648** | **54,052** | **2,401** | **-** | **215,649** |
| Net carrying value | | | | | | | |
| **At 1 January** | **132,731** | **1,039** | **19,127** | **11,686** | **843** | **2,590** | **168,016** |
| **At 31 December** | **129,708** | **1,154** | **14,363** | **13,249** | **722** | **6,797** | **165,993** |

The amount of property and equipment that the Bank obtained by taking possession of collateral held as security and recognized them in the balance sheet is Euro 7 thousand (2008: Euro 7 thousand).

## 5.12. Investment property

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 1,788 | 1,339 |
| Transfer from property and equipment (note 5.11.) | - | 272 |
| Revaluation to fair value (note 4.6.) | - | 177 |
| **Balance at 31 December** | **1,788** | **1,788** |

## 5.13. Intangible assets

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| | Software licences | Software licences |
| Cost | | |
| At 1 January | 150,166 | 143,165 |
| Additions | 10,437 | 14,897 |
| Disposals | (213) | (930) |
| Write offs | (2,736) | (6,966) |
| **At 31 December** | **157,654** | **150,166** |
| | | |
| Amortization | | |
| At 1 January | 64,926 | 51,324 |
| Disposals | (213) | (312) |
| Charge for the year (note 4.9.) | 17,128 | 17,301 |
| Write offs | (2,685) | (3,387) |
| **At 31 December** | **79,156** | **64,926** |
| | | |
| Net carrying value | | |
| **At 1 January** | **85,240** | **91,841** |
| **At 31 December** | **78,498** | **85,240** |

## 5.14. Investments in subsidiaries, associated and jointly controlled companies

### a) Analysis by type of investment in subsidiaries

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Banks | 429,156 | 358,196 |
| Other financial organizations | 76,153 | 67,471 |
| Enterprises | 22,049 | 21,603 |
| | 527,358 | 447,270 |
| | | |
| Impairment (note 4.11.) | (38,506) | (2,697) |
| **TOTAL** | **488,852** | **444,573** |

As a consequence of global financial crisis and difficult conditions the Bank performed an impairment test of individual investments in subsidiaries as at 31 December 2009. According to the requirements of IFRS and internal methodology the Bank calculated recoverable amount of each investment. The calculation is based on the value in use concept including following assumptions:

- A financial budget for a three years period approved by Management Board and supervisors;
- Extrapolation of approved plans for a five years period considering stable growth rate;
- A growth rate of the cash flow in residual period between 3% - 3.5%;
- A discount rate between 13.8 % - 17 %;
- Target capital ratios of an individual bank between 12% - 15%.

The financial budgets of individual companies are based on previous experiences and assessment of future economic conditions that will impact an individual subsidiary's business and the quality of the credit portfolio. The discount rates used are based on assessment of general and specific risk that an individual subsidiary's business is exposed to. The discount rates are calculated on the basis of CAPM model.

According to the management the growth rates used in the residual period correspond with long term growth rates in those markets and industry.

In the year 2009 the Bank recorded an impairment loss in the amount of Euro 35,809 thousand for investments in LHB Internationale Handelsbank AG, Frankfurt/Main, NLB Tuzlanska banka d.d., Tuzla and NLB Razvojna banka A.D., Banja Luka.

Majority of impact relates to effects derived from financial crises, larger impairment provisions, higher interest rates on deposits, large decline in GDP for Balkans region, change in capital regulation that requires additional capital increases or results in smaller dividend payout.

The Bank's subsidiaries as at 31 December 2009 are:

| in thousand of euros | Country of Incorporation | Equity as at 31 December 2009 | Profit for the period 2009 | Bank's shareholding %* | Voting rights %* |
|---|---|---|---|---|---|
| LHB Internationale Handelsbank AG, Frankfurt/Main | Republic of Germany | 72,477 | (27,862) | 100 | 100 |
| NLB Tutunska banka AD, Skopje | Republic of Macedonia | 70,024 | 7,190 | 60.26 | 86.97 |
| NLB InterFinanz AG, Zürich | Switzerland | 31,796 | 1,205 | 100 | 100 |
| NLB Factoring a.s., Ostrava | Czech Republic | 4,996 | 51 | 100 | 100 |
| NLB Montenegro banka AD, Podgorica | Republic of Montenegro | 36,110 | 1,401 | 88.11 | 88.11 |
| NLB Tuzlanska banka d.d., Tuzla | Republic of Bosnia and Herzegovina | 32,624 | 1,189 | 96.30 | 96.32 |
| NLB Razvojna banka A.D., Banja Luka | Republic of Bosnia and Herzegovina | 41,496 | 3,599 | 99.85 | 99.85 |
| NLB Banka a.d., Beograd | Republic of Serbia | 61,309 | (6,413) | 99.98 | 99.98 |
| NLB Priština sh.a., Priština | Republic of Kosovo | 30,936 | 3,458 | 81.21 | 81.21 |
| NLB Banka a.d., Sofija | Republic of Bulgaria | 12,138 | (1,902) | 97.01 | 97.01 |
| NLB Propria d.o.o., Ljubljana | Republic of Slovenia | 10,983 | 53 | 100 | 100 |
| NLB Leasing d.o.o., Ljubljana | Republic of Slovenia | 33,879 | (2,807) | 100 | 100 |
| NLB Leasing Maribor d.o.o., Maribor | Republic of Slovenia | 3,420 | (1,169) | 100 | 100 |
| NLB Leasing Koper d.o.o., Koper | Republic of Slovenia | 4,557 | 212 | 100 | 100 |
| NLB Skladi d.o.o., Ljubljana | Republic of Slovenia | 4,043 | 897 | 100 | 100 |
| NLB Nov Penziski fond a.d., Skopje | Republic of Macedonia | 2,138 | 353 | 51 | 100 |
| Prospera plus d.o.o., Ljubljana | Republic of Slovenia | 471 | 7 | 100 | 100 |
| NLB Lizing d.o.o.e.l., Skopje | Republic of Macedonia | 4,854 | 658 | 100 | 100 |
| NLB Factor a.s., Bratislava | Slovak Republic | 47 | (758) | 100 | 100 |
| NLB Srbija d.o.o., Beograd | Republic of Serbia | 664 | 50 | 100 | 100 |
| NLB Nova penzija a.d., Beograd | Republic of Serbia | 1,059 | 708 | 62.71 | 62.71 |
| FIN – DO d.o.o., Domžale | Republic of Slovenia | 91 | (871) | 100 | 100 |
| LHB Finance d.o.o., Ljubljana | Republic of Slovenia | 1,340 | (7,278) | 100 | 100 |

Financial information derives from local official financial reports.
*Ownership interest and voting rights are calculated after the deduction of treasury shares.

NLB increased in 2009 its ownership interest in following banks:

- NLB Razvojna banka a.d., Banja Luka from 81.50% to 99.85%,
- LHB Internationale Handelsbank AG, Frankfurt/Main from 98.95% to 100%,
- NLB Banka a.d., Beograd from 92.54% to 99.98%.

The Bank's subsidiaries as at 31 December 2008 are:

| in thousand of euros | Country of Incorporation | Equity as at 31 December 2008 | Profit for the period 2008 | Bank's shareholding %* | Voting rights %* |
|---|---|---|---|---|---|
| LHB Internationale Handelsbank AG, Frankfurt/Main | Republic of Germany | 78,102 | 108 | 98.95 | 98.95 |
| NLB Tutunska banka AD, Skopje | Republic of Macedonia | 75,262 | 10,961 | 86.97 | 86.97 |
| NLB InterFinanz AG, Zürich | Switzerland | 38,284 | 9,050 | 100 | 100 |
| NLB Factoring a.s., Ostrava | Czech Republic | 5,328 | 714 | 100 | 100 |
| NLB Montenegro banka AD, Podgorica | Republic of Montenegro | 30,793 | 2,290 | 87.54 | 87.54 |
| NLB Tuzlanska banka d.d., Tuzla | Republic of Bosnia and Herzegovina | 31,556 | 4,751 | 95.85 | 95.85 |
| NLB Razvojna banka A.D., Banja Luka | Republic of Bosnia and Herzegovina | 40,890 | 7,201 | 81.49 | 81.49 |
| NLB Banka a.d., Beograd | Republic of Serbia | 64,072 | 2,534 | 75.21 | 92.08 |
| NLB Priština sh.a., Priština | Republic of Kosovo | 27,469 | 3,504 | 81.21 | 81.21 |
| NLB West East Bank a.d., Sofija | Republic of Bulgaria | 14,040 | 667 | 97.01 | 97.01 |
| NLB Propria d.o.o., Ljubljana | Republic of Slovenia | 11,483 | 213 | 100 | 100 |
| NLB Leasing d.o.o., Ljubljana | Republic of Slovenia | 37,062 | 377 | 100 | 100 |
| NLB Leasing Maribor d.o.o., Maribor | Republic of Slovenia | 4,803 | 214 | 100 | 100 |
| NLB Leasing Koper d.o.o., Koper | Republic of Slovenia | 4,514 | 168 | 100 | 100 |
| NLB Skladi d.o.o., Ljubljana | Republic of Slovenia | 4,498 | 1,423 | 100 | 100 |
| Nov Penziski fond a.d., Skopje | Republic of Macedonia | 1,857 | 392 | 51 | 100 |
| Prospera plus d.o.o., Ljubljana | Republic of Slovenia | 464 | 8 | 100 | 100 |
| NLB Lizing d.o.o.e.l., Skopje | Republic of Macedonia | 4,309 | 3,430 | 100 | 100 |
| NLB Factor s.r.o, Bratislava | Slovak Republic | 1,008 | 359 | 100 | 100 |
| NLB Srbija d.o.o., Beograd | Republic of Serbia | 654 | (2,166) | 100 | 100 |
| NLB Nova penzija a.d., Beograd | Republic of Serbia | 1,117 | (812) | 61.40 | 84.40 |
| FIN – DO d.o.o., Domžale | Republic of Slovenia | 61 | 49 | 100 | 100 |

Financial information derives from local official financial reports.
*Ownership interest and voting rights are calculated after the deduction of treasury shares.

### b) Analysis by type of investment in associated companies and jointly controlled

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Banks | 56,476 | 56,476 |
| Other financial organizations | 7,938 | 7,938 |
| Enterprises | 1,491 | 1,060 |
| **TOTAL** | **65,905** | **65,474** |

Associated companies of the Bank are:

| in thousand of euros | Activity | Country of Incorporation | Equity as at 31 December2009 | Profit for the period 2009 | Bank's shareholding %* | Voting rights %* |
|---|---|---|---|---|---|---|
| Banka Celje d.d., Celje | Banking | Republic of Slovenia | 198,873 | 6,771 | 40.99 | 49.42 |
| Adria Bank AG., Wien | Banking | Republic of Austria | 34,606 | 2,834 | 28.46 | 28.46 |
| Bankart d.o.o., Ljubljana | Card processing | Republic of Slovenia | 12,579 | 635 | 39.44 | 39.44 |
| Skupna pokojninska družba d.d., Ljubljana | Insurance | Republic of Slovenia | 12,964 | 2,232 | 28.13 | 28.13 |
| ICJ d.o.o., Domžale | Real estate | Republic of Slovenia | 234 | 1 | 50 | 50 |
| Plan a.d., Banja Luka | Architecture services | Republic of Bosnia and Herzegovina | 723 | 3 | 32.31 | 32.31 |

Financial information derives from local official financial reports.
*Ownership interest and voting rights are calculated after the deduction of treasury shares.

| in thousand of euros | Activity | Country of Incorporation | Equity as at 31 December 2008 | Profit for the period 2008 | Bank's shareholding %* | Voting rights %* |
| --- | --- | --- | --- | --- | --- | --- |
| Banka Celje d.d., Celje | Banking | Republic of Slovenia | 188,684 | 11,409 | 40.99 | 49.42 |
| Adria Bank AG., Wien | Banking | Republic of Austria | 34,368 | 2,834 | 28.46 | 28.46 |
| Bankart d.o.o., Ljubljana | Card processing | Republic of Slovenia | 11,983 | 559 | 39.44 | 39.44 |
| Skupna pokojninska družba d.d., Ljubljana | Insurance | Republic of Slovenia | 11,173 | 1,723 | 28.13 | 28.13 |
| ICJ d.o.o., Domžale | Real estate | Republic of Slovenia | 238 | 39 | 50 | 50 |

Financial information derives from local official financial reports.
*Ownership interest and voting rights are calculated after the deduction of treasury shares.

Jointly controlled companies are:

| in thousand of euros | Activity | Country of Incorporation | Equity as at 31 December 2009 | Profit for the period 2009 | Bank's shareholding and voting rights in % |
| --- | --- | --- | --- | --- | --- |
| NLB Vita d.d., Ljubljana | Insurance | Republic of Slovenia | 13,086 | 2,336 | 50 |
| Prvi Faktor d.o.o., Ljubljana | Finance | Republic of Slovenia | 11,228 | 1,163 | 50 |

Financial information derives from local official financial reports.

| in thousand of euros | Activity | Country of Incorporation | Equity as at 31 December 2008 | Profit for the period 2008 | Bank's shareholding and voting rights in % |
| --- | --- | --- | --- | --- | --- |
| NLB Vita d.d., Ljubljana | Insurance | Republic of Slovenia | 8,723 | 766 | 50 |
| Prvi Faktor d.o.o., Ljubljana | Finance | Republic of Slovenia | 14,825 | 3,005 | 50 |

Financial information derives from local official financial reports.

## 5.15. Other assets

### Analysis by type of assets

| in thousand of euros | 31.12.2009 | 31.12.2008 |
| --- | --- | --- |
| Prepayments | 13,375 | 902 |
| Receivables in the course of collection | 13,293 | 11,641 |
| Fees and commissions due | 3,444 | 2,868 |
| Dividends | 3,344 | - |
| Claims for taxes and other dues | 2,533 | 2,779 |
| Debtors | 2,931 | 2,321 |
| Deferred expenses | 1,604 | 1,531 |
| Inventories | 384 | 508 |
| Accrued fees and commissions | 243 | 49 |
| Other assets | 16,542 | 14,626 |
| | 57,693 | 37,225 |
| Allowance for impairment (note 5.16.) | (4,946) | (4,701) |
| **TOTAL** | **52,747** | **32,524** |

All other assets, except for inventories and claims for taxes and other dues, are financial assets and are measured at amortized cost.

Receivables in the course of collection are temporary balances that, according to the functionality of the information support system, are transferred to the appropriate item of other assets within next few days after occurrence.

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

### a) Loans and advances to individuals

| in thousand of euros | 2009 | | | |
|---|---|---|---|---|
| | Loans and advances to individuals | | | |
| | Granted overdrafts | Loans for houses and flats | Consumer loans | Other loans |
| Balance at 1 January | 16,319 | 32,244 | 15,737 | 2,818 |
| Impairment (note 4.11.) | 3,300 | 7,086 | 7,273 | 307 |
| Write offs | (4,207) | (3,979) | (82) | (100) |
| **Balance at 31 December** | **15,412** | **35,351** | **22,928** | **3,025** |

| in thousand of euros | 2008 | | | |
|---|---|---|---|---|
| | Loans and advances to individuals | | | |
| | Granted overdrafts | Loans for houses and flats | Consumer loans | Other loans |
| Balance at 1 January | 18,321 | 26,816 | 10,595 | 2,731 |
| Impairment (note 4.11.) | (727) | 6,080 | 5,230 | 158 |
| Write offs | (1,275) | (652) | (88) | (71) |
| **Balance at 31 December** | **16,319** | **32,244** | **15,737** | **2,818** |

### b) Loans and advances to legal entities and other assets

| in thousand of euros | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 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 enterprises | Other assets |
| Balance at 1 January | 367 | 2,871 | 8,245 | 87,721 | 195,746 | 4,701 |
| Impairment (note 4.11.) | 78 | 1,950 | 7,857 | 79,785 | 40,401 | 5,420 |
| Write offs | - | - | (18) | (82) | (1,709) | (5,175) |
| **Balance at 31 December** | **445** | **4,821** | **16,084** | **167,424** | **234,438** | **4,946** |

| in thousand of euros | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | 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 enterprises | Other assets |
| Balance at 1 January | 180 | 2,315 | 7,390 | 66,420 | 161,073 | 3,713 |
| Impairment (note 4.11.) | 187 | 670 | 855 | 21,301 | 41,737 | 1,546 |
| Write offs | - | (114) | - | - | (7,064) | (558) |
| **Balance at 31 December** | **367** | **2,871** | **8,245** | **87,721** | **195,746** | **4,701** |

## 5.17. Trading liabilities

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Derivatives, excluding hedges** | | |
| Futures contracts | | |
| • currency futures | 13 | 22 |
| • interest rate futures | 11 | 429 |
| Forward contracts | | |
| • currency forward | 1,377 | 5,385 |
| • cross currency interest rate forward | 55 | 298 |
| • securities forward | 457 | 479 |
| Options | | |
| • currency options | 6,099 | 9,180 |
| • interest rate options | 1,573 | 1,782 |
| • securities options | 7,279 | 148 |
| Swap contracts | | |
| • currency swaps | 4,371 | 17,879 |
| • interest rate swaps | 30,467 | 26,838 |
| • cross currency interest rate swaps | 5,502 | 5,276 |
| **TOTAL** | **57,204** | **67,716** |

Notional amounts of derivative financial instruments are disclosed in note 5.29.d).

## 5.18. Deposits, borrowings and debt securities

### a) Deposits from banks and amounts due to customers

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Deposits on demand | | |
| • banks | 73,319 | 62,760 |
| • other customers | 3,014,974 | 2,864,899 |
| Other deposits | | |
| • banks | 262,684 | 446,150 |
| • other customers | 5,176,211 | 4,206,497 |
| **TOTAL** | **8,527,188** | **7,580,306** |

Deposits in the amount of Euro 965,896 thousand (31 December 2008: Euro 290,643 thousand) are expected to be settled after more than twelve months.

**b) Borrowings from banks and other customers**

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Short term loans | | |
| • banks | - | 839,908 |
| Long term loans | | |
| • banks | 2,196,634 | 2,736,981 |
| • other customers | 10,108 | 1,611 |
| **TOTAL** | **2,206,742** | **3,578,500** |

Loans in the amount of Euro 1,433,130 thousand (31 December 2008: Euro 1,877,570 thousand) are expected to be settled after more than twelve months.

**c) Pledged assets**

As at 31 December 2009 the Bank has no pledged assets. As at 31 December 2008 the Bank had pledged assets amounted to Euro 400,682 thousand with related liability amounted to Euro 400,518 thousand.

**d) Debt securities in issue**

In July 2009 the Bank successfully issued in international financial markets securities with the guarantee of the Republic of Slovenia. Securities were issued in the amount of Euro 1.5 billion with the coupon of 3.25% per year.

All debt securities in issue relate to issued bonds and are denominated in Euro. 94.01% of them have fixed interest rates (31 December 2008: 60.3%) and 5.99% have floating interest rates (31 December 2008: 39.7%). As at 31 December 2009 all debt securities in issue with the carrying amount of Euro 1,757,310 thousand (31 December 2008: Euro 462,284 thousand) were quoted on active markets. Issued securities in the amount of Euro 1,731,246 thousand (31 December 2008: Euro 275,875 thousand) have remaining maturity of more than twelve months.

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

**e) Deposits and borrowings from Central Bank**

The Bank also identified a pool of securities eligible for borrowings from the Central Bank. As at 31 December 2009 the amount of eligible securities is Euro 800,624 thousand (31 December 2008: Euro 554,915 thousand) and the counterparty liability of Euro 800,000 thousand (31 December 2008: Euro 200,000 thousand) is presented within deposits and borrowings from Central Bank. The Bank has retained legal and economic ownership of these securities.

## 5.19. Subordinated liabilities

| in thousand of euros | Currency | Due date | Interest rate | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|---|---|---|
| | | | | Carrying amount | Nominal value | Carrying amount | Nominal value |
| **Subordinated loans** | EUR | 14.6.2016 | EURIBOR + 0.45% p.a. to 14.6.2011, thereafter EURIBOR + 1.1% p.a. | 75,033 | 75,000 | 75,116 | 75,000 |
| | EUR | 2.6.2017 | 3 months EURIBOR + 0.48% p.a. to 27.6.2012, thereafter 3 months EURIBOR + 1.98% p.a. | 189,718 | 190,000 | 190,131 | 190,000 |
| | EUR | - | 3 months EURIBOR + 1.5% p.a. to 7.9.2011, thereafter 3 months EURIBOR + 2.25% p.a. | 100,148 | 100,000 | 100,330 | 100,000 |
| | EUR | - | 3 months EURIBOR + 0.95% p.a. to 24.7.2012, thereafter 3 months EURIBOR + 1.7% p.a. | 119,723 | 120,000 | 120,601 | 120,000 |
| **Subordinated securities** | EUR | 10.2.2011 | 4.5 % | 5,200 | 5,000 | 5,200 | 5,000 |
| | EUR | 25.2.2013 | 6 months EURIBOR + 1.4% p.a. | 12,612 | 12,500 | 12,789 | 12,500 |
| | EUR | 9.6.2013 | 7.0 % | 50,596 | 48,963 | 50,525 | 48,963 |
| | EUR | 2.6.2014 | 3 months EURIBOR + 1.25% p.a. | - | - | 50,212 | 50,000 |
| | EUR | - | 3 months EURIBOR + 1.6% p.a. to 17.12.2014, thereafter 3 months EURIBOR + 3.1% p.a. | 100,096 | 100,000 | 100,201 | 100,000 |
| | EUR | - | 6 months EURIBOR + 1.68% p.a. to 15.7.2015, thereafter 6 months EURIBOR + 2.68% p.a. | 131,785 | 130,000 | 134,185 | 130,000 |
| **TOTAL** | | | | **784,911** | **781,463** | **839,290** | **831,463** |

In accordance with the Regulation on capital adequacy of banks and savings banks, four subordinated long-term loans and issued subordinated securities are included in the Bank's Tier 2 capital as at 31 December 2009. The issued subordinated securities do not contain any provisions on conversion to capital or any other liabilities. In 2009 the Bank did not issue any new subordinated liabilities.

Subordinated loans in the amount of Euro 120 millions and Euro 100 millions are hybrid instruments as defined with the Regulation on capital adequacy of banks and savings banks. The instrument can be repaid by the option of the Bank, the withdrawal or redemption is first possible only after minimum of five years and one day after issue and with prior approval of the Bank of Slovenia. Subordinated securities in the amount of Euro 130 million are quoted at the Luxemburg stock exchange and have the nature of innovative instrument. Their main characteristics are:

- Instrument is "bearer" type (entitle the holder).
- The instrument is perpetual, and the Bank has no obligation to repay principal amount. The Bank has the right to redeem bonds on each interest payment day after the 10 year period from the issuance day, in rare cases redemption in possible also after the period of 5 years but in both cases only with prior approval of the Bank of Slovenia.
- Interest is paid semi-annual in arrears.
- Payments from this instrument are non cumulative.
- They are able to absorb losses on a going-concern basis.
- They are subordinated to depositors, general creditors and subordinated debt instruments, which means that in the case of the Bank's bankruptcy these instruments rank just above non - cumulative preference shares and ordinary shares.
- They are neither secured nor covered by a guarantee of the Bank or related entity or any other form of arrangement that legally or economically enhances the seniority of the claim.
- The withdrawal or redemption of the instruments by the Bank or the acceptance of the instrument as collateral for a claim is first possible only after a minimum of five years after the issue and with the prior approval of the Bank of Slovenia. The condition for approval is that the Bank will replace the instruments with another form of capital of the same or better quality, unless the Bank of Slovenia determines that even without the innovative instruments the capital is more than adequate to the risk assumed by the Bank and its commercial strategy. From the day it is withdrawn, redeemed or accepted as collateral an innovative instrument no longer meets the conditions for inclusion in the calculation of the own funds.

- Proceeds must be immediately and unconditionally available to the Bank.
- In the event that the Bank has no distributable profit, the Bank must have discretion of not paying out interest on innovative instruments and Bank must have full access to waived payments.
- Distributions can only be paid out of distributable items. Where the distributions are preset, they may not be reset based on the credit rating of the Bank.

Subordinated liabilities in the amount of Euro 780,030 thousand (31 December 2008: Euro 780,171 thousand) have remaining maturity of more than twelve months.

During the years presented there were no defaults on subordinated liabilities.

## 5.20. Provisions

### a) Analysis by type of provisions

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Provisions for guarantees and commitments (note 5.29.b) | 33,253 | 33,088 |
| Employee benefit provisions | 15,893 | 16,253 |
| Provisions for premiums from National Saving Scheme | 4,367 | 5,280 |
| Other provisions | 2,323 | 4,067 |
| **TOTAL** | **55,836** | **58,688** |

### b) Movements in provisions for guarantees and commitments

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 33,088 | 45,874 |
| Provisions (released)/made (note 4.10.) | 165 | (12,786) |
| **Balance at 31 December** | **33,253** | **33,088** |

### c) Movements in employee benefit provisions

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 16,253 | 16,541 |
| Provisons made (note 4.8.) | 5,224 | 5,300 |
| Provisions released (note 4.8.) | (99) | (45) |
| Utilized during year | (5,485) | (5,543) |
| **Balance at 31 December** | **15,893** | **16,253** |

Employee benefit provisions include jubilee bonuses, retirement indemnities, uncased annual leaves and termination benefits that are provided as a result of an offer made to employees in order to encourage retirements before the normal retirement date.

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

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 5,280 | 8,122 |
| Provisions made (note 4.10.) | 1,810 | 14 |
| Utilized during year | (2,723) | (2,856) |
| **Balance at 31 December** | **4,367** | **5,280** |

According to the covenants of the National Saving Scheme, the Housing Fund of the Republic of Slovenia was required to contribute one monthly premium per year to all depositors of the Scheme. The Bank is required to refund invested premiums to the Housing Fund for all depositors that decide not to raise a loan after the conclusion of the Scheme, which is why the Bank has formed a provision for the expected amount of such premiums.

### e) Movements in other provisions

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 4,067 | 6,659 |
| Provisions made (note 4.10.) | - | 1,815 |
| Utilized during year | (1,744) | (4,407) |
| **Balance at 31 December** | **2,323** | **4,067** |

Other provisions relate to claims for additional interest relating to retail savings and deposits.

## 5.21. Deferred tax

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| **Deferred tax asset** | | |
| Provisions | 2,430 | 2,844 |
| Fair value of financial instruments | 10,393 | 11,701 |
| Other | 1,337 | 100 |
| **Total deferred tax asset** | **14,160** | **14,645** |
| | | |
| **Deferred tax liabilities** | **-** | **-** |
| | | |
| **Net deferred tax assets** | **14,160** | **14,645** |
| | | |
| **Included in the income statement for the current year** | **1,136** | **9,567** |
| • fair value of financial instruments | 313 | 9,811 |
| • provisions | (414) | (1,096) |
| • other | 1,237 | 852 |
| | | |
| **Included in comprehensive income in the current year** | **(1,621)** | **269** |
| • valuation of available for sale financial assets (note 5.4.c) | (1,742) | (821) |
| • cash flow hedges (note 5.5.c) | 121 | 1,090 |

Expenses from adjustment of deferred tax receivables to lower tax rate in 2009 amounted to Euro 758 thousand (2008: Euro 542 thousand).

## 5.22. Tax effects relating to each component of other comprehensive income

| in thousand of euros | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Before tax amount | Tax (expense)/ benefit | Net of tax amount | Before tax amount | Tax (expense)/ benefit | Net of tax amount |
| Available for sale financial assets | 8,795 | (1,742) | 7,053 | 3,825 | (821) | 3,004 |
| Cash flow hedge | (830) | 121 | (709) | (5,157) | 1,090 | (4,067) |
| **TOTAL** | **7,965** | **(1,621)** | **6,344** | **(1,332)** | **269** | **(1,063)** |

## 5.23. Other liabilities

### Analysis by type of other liabilities

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Fees and commissions due | 37,744 | 1,237 |
| Suppliers | 15,266 | 16,548 |
| Liabilities to traders for credit cards | 14,270 | 12,036 |
| Accrued salaries | 9,906 | 10,270 |
| Accruals | 2,645 | 4,736 |
| Items in the course of payment | 2,716 | 3,483 |
| Taxes payable | 2,334 | 2,422 |
| Other liabilities | 8,992 | 8,525 |
| **TOTAL** | **93,873** | **59,257** |

All other liabilities, except for taxes payable, are financial liabilities and are measured at amortized cost.

## 5.24. Share capital

As at 31 December 2009 subscribed capital amounts to Euro 74,328 thousand and it is divided into 8,905,952 ordinary shares. In 2008 the Bank increased subscribed capital with the issue of new ordinary shares. The Bank increased its subscribed capital by Euro 7,497 thousand by issuing 898,204 new shares, which represents 11.22% increase in subscribed capital. Prior to the issue of new shares, subscribed capital amounted to Euro 66,831 thousand and was divided into 8,007,748 shares.

The shares are no-par value. All shares are ordinary, freely transferable, with voting rights, issued in non-material form and registered on the accounts of shareholders at the Central Securities Clearing Corporation. All shares are of the same class and subscribed. Shareholders have the right to participate in the governance of the Bank, to receive dividends and they are entitled to part of the assets in the event of a winding-up of the Bank, as determined by law.

As at 31 December 2009 there were 1,998 shareholders (31 December 2008: 1,976), of which 272 are legal entities, 1,709 individuals and 17 non-residents. Compared to year-end 2008 the number of shareholders has increased by 22. 1 share is held by the Bank's subsidiary (31 December 2008: 1 share). The Bank has 34,924 treasury shares for which it has set aside reserves in the amount of Euro 2,048 thousand.

Pursuant to a decision of the Annual General Meeting the Bank paid in 2009 a dividend for 2008 of Euro 0.33 per share amounting to total dividend payment of Euro 2,927 thousand (2008: Euro 47,469 thousand).

## 5.25. Reserves

The share premium consists of the paid up premiums in the amount of Euro 446,390 thousand (31 December 2008: Euro 446,390 thousand) and the revaluation of subscribed capital from previous years in the amount of Euro 49,205 thousand (31 December 2008: Euro 49,205 thousand).

Profit reserves in the amount of Euro 604,148 thousand (31 December 2008: Euro 605,915 thousand) present retained earnings that were transferred to reserves in accordance with the decision of the Bank's Annual General Meeting and can not be distributed in the form of dividends.

The Bank recorded net loss in the amount of Euro 23,621 thousand (2008: net profit 24,594 thousand) and therefore no distributable profit is available for the year 2009.

## 5.26. Capital ratios

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| **REGULATORY CAPITAL** | **1,261,891** | **1,407,486** |
| **TIER I CAPITAL** | **1,207,822** | **1,236,203** |
| Share capital | 74,328 | 74,328 |
| Treasury shares | (2,048) | (2,048) |
| Capital reserves | 495,595 | 495,595 |
| Reserves and retained earnings | 603,521 | 605,652 |
| Audited profit during the year | - | 21,444 |
| Revaluation reserves - rating filters | (10,844) | (2) |
| Innovative instruments subject to limits | 129,999 | 129,996 |
| Other deductible items | (82,729) | (88,762) |
| • intangible assets | (78,498) | (85,240) |
| • other | (4,231) | (3,522) |
| **TIER II CAPITAL** | **635,027** | **686,817** |
| **DEDUCTIBLE ITEMS FROM TIER I AND TIER II CAPITAL (investments in banks and financial organizations)** | **(580,958)** | **(515,534)** |
| **CAPITAL REQUIREMENTS** | **973,066** | **945,552** |
| Sum of capital requirements for credit risk, risk of a counterparty and settlement risk | 879,952 | 870,853 |
| Settlement risk | 1,307 | 411 |
| Sum of capital requirements for position risk, foreign exchange risk and risk of changes in commodity prices | 32,873 | 21,357 |
| • debt securities | 3,760 | 5,965 |
| • equity securities | 24,680 | 12,010 |
| • foreign currencies | 4,389 | 3,357 |
| • commodities | 44 | 25 |
| Capital requirement for operational risk | 58,934 | 52,931 |
| **CAPITAL ADEQUACY RATIO (in %)** | **10.37** | **11.91** |

Capital adequacy and capital are monitored in conformity with the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bank of Slovenia. The required information is filed with the Bank of Slovenia on a quarterly basis.

The Bank of Slovenia requires each bank to hold the minimum level of subscribed capital of Euro 5,000,000 and to maintain a capital adequacy ration at or above 8%. During the presented years the Bank complied with all of the externally imposed capital requirements to which it is subject.

Characteristics of capital components are described in the Regulation on Capital Adequacy of Banks and Saving Banks.

Tier II capital includes hybrid instruments, subordinated debt and innovative instruments in the amount that exceeds restrictions for inclusion in Tier 1 capital and available for sale revaluation reserve and adjustment to valuation of investment property. The extent of subordinated debt included in Tier II capital is gradually decreasing with a 20% cumulative discount in the last five years before maturity.

In line with capital regulation in 2008 the Bank also calculated the capital requirement for operational risk.

In the first half of the year 2009, call option on subordinated debt in amount of Euro 50 million was exercised.

## 5.27. Foreign branches

The Bank has a branch in Trieste with total assets amounting to Euro 189,259 thousand as at 31 December 2009 (31 December 2008: Euro 231,086 thousand) and net profit for 2009 Euro 441 thousand (2008: Euro 1,366 thousand).

## 5.28. Funds managed on behalf of third parties

The Bank manages assets totaling Euro 6,150,329 thousand (31 December 2008: Euro 5,967,242 thousand) on behalf of third parties. Assets managed on behalf of third parties are comprised of fiduciary activities in amount of Euro 5,451,439 thousand (31 December 2008: Euro 5,167,549 thousand), difference in the amount of Euro 698,890 thousand (31 December 2008: Euro 799,693 thousand) relates to settlement and other services in the name and the account of third parties. Managed funds' assets are accounted for separately from those of the Bank. Income and expenses of these funds are for the account of the respective fund and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services with fees. Commissions from these activities in 2009 amounted to Euro 5,392 thousand (2008: Euro 7,069 thousand), of which Euro 4,993 thousand (2008: Euro 6,643 thousand) relate to fiduciary activities (see note 4.3.b) and the rest to settlement and other services in the name and the account of third parties.

## Fiduciary activities

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **ASSETS** | | |
| **Clearing or transaction account claims for client assets** | **5,432,729** | **5,125,877** |
| • from financial instruments | 5,432,690 | 5,125,793 |
| • receipt, processing and execution of orders | 70 | 92 |
| • custody services | 5,432,620 | 5,125,701 |
| • to Central Securities Clearing Corporation or bank settlement account for sold financial instruments | 39 | 84 |
| **Clients` money** | **18,710** | **41,672** |
| • at settlement account for client assets | 1.532 | 1.895 |
| • at bank transaction accounts | 17.178 | 39.777 |
| | | |
| **LIABILITIES** | | |
| **Clearing or transaction liabilities for client assets** | **5,451,439** | **5,167,549** |
| • to client from cash and financial instruments | 5,451,115 | 5,167,308 |
| • receipt, processing and execution of orders | 295 | 144 |
| • management of financial instruments portfolio | 1,112 | 1,954 |
| • custody services | 5,449,708 | 5,165,210 |
| • to Central Securities Clearing Corporation or bank settlement account for bought financial instruments | 61 | 84 |
| • to bank or settlement bank account for fees and costs etc. | 263 | 157 |

## 5.29. Off-balance sheet

### a) Contingent liabilities and commitments

A documentary (and standby) letters of credit constitutes a definite undertaking of the issuing bank, provided that the stipulated documents are presented to the nominated or the issuing bank and that the terms and conditions of the credit are complied with:

- If the credit provides for sight payment – to pay at sight,
- If the credit provides for deferred payment – to pay on the maturity date determinable in accordance with the stipulations of the credit.

Such undertakings can also be issued for credits received in the form of confirmation. It is usually done at the request or authorization of the opening bank and constitutes a definite undertaking of the confirming bank, in addition to that of the issuing bank.

### b) Contractual amounts of the Bank's off-balance sheet financial instruments

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Short-term guarantees | | |
| • financial | 296,709 | 177,700 |
| • service | 115,201 | 152,136 |
| Long-term guarantees | | |
| • financial | 852,863 | 825,528 |
| • service | 553,658 | 488,833 |
| Commitments to extend credit | 1,221,137 | 1,309,263 |
| Guaranteed and accepted bills | 46,070 | 45,228 |
| Letters of credit | 5,647 | 6,888 |
| Other | 67,863 | 82,801 |
| | 3,159,148 | 3,088,377 |
| Provisions (note 5.20.b) | (33,253) | (33,088) |
| **TOTAL** | **3,125,895** | **3,055,289** |

Commitments to extend credit can be realized within one year. The Bank also has no financial guarantees, for which the first possible payment date would be later than within one year.

### c) Movement of called service guarantees

| in thousand of euros | 2009 | 2008 |
|---|---|---|
| Balance at 1 January | 276 | 159 |
| Called guarantees | 2,109 | 2,060 |
| Paid guarantees | (2,219) | (1,943) |
| **Balance at 31 December** | **166** | **276** |

Fee income from all issued service guarantees amounted to Euro 6,536 thousand (2008: Euro 6,209 thousand).

### d) Analysis of derivative financial instruments by notional amounts

| in thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Short-term | Long-term | Short-term | Long-term |
| Swaps | | | | |
| • currency swaps | 448,875 | 156 | 548,847 | 2,483 |
| • interest rate swaps | 1,290,452 | 3,670,651 | 282,304 | 1,351,841 |
| • cross currency interest rate swaps | 60,415 | 19,314 | 607 | 80,305 |
| Options | | | | |
| • currency options | 76,320 | 134,231 | 155,376 | 83,064 |
| • interest rate options | 10,000 | 163,996 | 100,000 | 217,704 |
| • securities options | 11,087 | 70,144 | 25,133 | 13,181 |
| Forward contracts | | | | |
| • currency forward | 97,416 | 147 | 169,390 | 10,789 |
| • cross currency interest rate forward | 150,164 | - | 70,000 | - |
| • securities forward | - | 30,223 | 19,615 | 6,346 |
| Futures | | | | |
| • currency futures | 15,687 | - | 8,204 | - |
| • interest rate futures | 1,823 | - | 10,458 | - |
| • commodities, shares | 293 | - | 163 | - |
| **TOTAL** | **2,162,532** | **4,088,862** | **1,390,097** | **1,765,713** |
| **TOTAL** | **6,251,394** | | **3,155,810** | |

Notional amounts of derivative financial instruments in statements that qualify for hedge accounting amount to Euro 3,101,134 thousand (31 December 2008: Euro 370,362 thousand). Derivatives that qualify for hedge accounting are used to hedge interest rate risk.

Fair values of derivative financial instruments are disclosed in notes 5.2., 5.5. and 5.17.

### e) Operating lease commitments

The future minimum lease payments under non cancellable building operating leases are as follows:

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Not later than one year | 2,441 | 2,163 |
| Later than one year and not later than five years | 8,300 | 7,959 |
| Later than five years | 3,521 | 2,922 |
| **TOTAL** | **14,262** | **13,044** |

### f) Capital commitments

As at 31 December 2009 the Bank had capital commitments of Euro 1,162 thousand in respect of implementation of a new information technology system (31 December 2008: Euro 5,747 thousand).

# 6. RISK MANAGEMENT OF THE BANK

The Bank's risk management includes a clear organizational structure, effective risk management procedures and an appropriate system of internal controls. The goal is to achieve planned results with minimal risk taking and to optimize the use of regulatory and internal capital.

In managing risks NLB d.d. takes into consideration rules and regulations prescribed by the Bank of Slovenia and internal acts of the Bank. The basic strategy and internal acts, which are regularly updated, discussed at by the Supervisory Board and approved by the Management Board, define the objectives, procedures and methodologies for monitoring, measuring and managing different risks.

In the year 2009 a deepening of the financial crisis continued. The crisis was reflected in the loan activity of the Bank and also in the quality of its portfolio and liquidity problems of some important Bank's clients. Firms were faced with substantial decrease in demand and sales' income. In order to avoid losses, the Bank continues with its relatively conservative policy of managing credit risk. The latter encompasses a careful monitoring of clients, the approval of new investments only after obtaining quality collateral as well as obtaining additional collaterals for investments already made.

Regarding market risks NLB also continues to maintain a relatively conservative policy. The exposure of the Bank to these risks is relatively small. Regarding structural liquidity the Bank has formed an adequate level of liquidity reserves in the shape of first rate bonds, which allow for "repo" deals with ECB or on inter-bank market.

## 6.1. Credit Risk Management

The Bank's credit portfolio includes balance sheet items (loans, securities, interest, fees, commission, etc.) as well as off-balance sheet items (guarantees, letters of credits, commitments and contingencies, derivatives, etc.) towards corporate customers, banks, financial institutions, the public sector, entrepreneurs, retail customers and other customers. By entering into any of the above-mentioned transactions the Bank exposes itself to credit risk, which is the risk that the counterparty will cause a financial loss for the Bank by failing to discharge an obligation.

Prior to credit approval or entering into a contract, which exposes the Bank to credit risk, every customer receives a rating and individual limit. The rating of a customer depends on its financial position, business performance, relationship with the Bank to date, the ability to provide sufficient finance to meet future obligations, also taking into account also country risk exposure.

The risk of individual credit is additionally considered in connection to the entire credit portfolio. Trends in the movements, risks and concentrations of the credit portfolio as a whole and separately for different segments of customers and loans or advances are considered based on the analysis of time series.

Impairment losses and provisions are measured in accordance with the International Financial Reporting Standards as adopted by the European Union, according to the risk of a loan and existence of objective signs of impairment. The amount of impairment loss is also influenced by the collateral if it represents a successful means of repaying the debt in the event of customer's default.

### a) Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, both by amount and term. The bank enters mostly into currency, interest rate derivative contracts (mostly for servicing clients, the Bank closes them "back to back ") equity derivative contracts represent a smaller portion. The amount subject to credit risk is limited to the credit replacement value of the instrument that is determined in accordance with the regulation (based on the sum of current and potential exposure). This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

### b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers when required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of losses is less than total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### c) Bank's internal rating system

| | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Loans and advances (%) | Impairment provision (%) | Loans and advances (%) | Impairment provision (%) |
| A | 61.94 | 0.34 | 64.54 | 0.53 |
| B | 26.00 | 3.59 | 27.21 | 3.08 |
| C | 8.21 | 12.24 | 5.76 | 11.07 |
| D and E | 3.85 | 59.45 | 2.49 | 65.01 |
| **TOTAL** | **100.00** | | **100.00** | |

Credit rating reflects the credit quality of the customer, whose exposure is derived from a financial instrument. Credit rating A stands for a first-class customers, who are not expected to encounter difficulties in repaying their obligations. Credit rating B indicates customers with somewhat worse financial position, which is temporary in nature and does not anticipate difficulties in repaying the obligations. The rating C indicates customers, that are undercapitalized and highly indebted or customers that generally do not generate sufficient cash flow to repay the obligations, so they may encounter repayment delays. Ratings D and E indicate the clients with evident financial difficulties or those who are in the process of compulsory settlement or bankruptcy; it is expected that these clients will not be able to repay most or even any of their obligations from their operating cash-flow. Customers with credit standing of C or worse must provide first-rate collateral to cover their exposure in the amount of credit replacement value.

### d) Maximum exposure to credit risk before collateral held or other credit enhancements

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| | Maximum exposure | Maximum exposure |
| Cash and balances with Central Bank | 381,987 | 307,250 |
| Loans to government | 52,652 | 60,788 |
| Loans to banks | 1,313,118 | 848,425 |
| Loans to financial organizations | 1,178,022 | 1,181,869 |
| Loans to individuals | | |
| • Granted overdrafts | 185,579 | 170,671 |
| • Loans for houses and flats | 922,355 | 757,343 |
| • Consumer loans | 831,233 | 914,186 |
| • Other loans | 52,231 | 60,960 |
| Loans to other customers | | |
| • Loans to large corporate customers | 3,663,371 | 3,542,760 |
| • Loans to small and medium enterprises | 2,571,265 | 3,030,797 |
| Trading assets | 282,504 | 380,276 |
| Available for sale financial assets | 2,294,242 | 1,697,623 |
| Held to maturity investments | 579,316 | 590,400 |
| Other assets | 49,830 | 29,237 |
| Contingent liabilities and commitments | 3,125,895 | 3,055,289 |

Maximum exposure to credit risk represents a worst case scenario of credit risk exposure, which is the maximum possible loss of the Bank without taking account of any collateral held. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet and for off-balance sheet items they are based on nominal value.

According to internal methodology for loan impairment, all individually significant customers are monthly individually assessed for impairment and if needed, impairment loss is recognized.

In the previous year's in-depth analyses of customers and careful risk management assured a high quality of the credit portfolio. In the year 2009 the credit portfolio quality worsened due to the financial crisis. This caused an increase in impairment and credit loss provisions for clients which were assessed on the portfolio level - increase of incurred but not reported losses – as well as for clients that were individually assessed, as a result of lower expected repayments. Because of that the coverage of the portfolio with allowances for impairment has been steadily increasing (2008: increasing) and has stabilized at 3.82% (2008: 2.84%) at the end of year 2009. 88% (2008: 92%) of the portfolio is considered to be a quality portfolio.

## e) Loans and advances neither past due nor impaired

| in thousand of euros | 31.12.2009 | | | |
|---|---|---|---|---|
| | Internal rating grade | | | |
| | A | B | C | D and E |
| Loans to government | 36,044 | - | - | - |
| Loans to banks | 1,154,565 | 85,179 | 14,045 | - |
| Loans to financial organizations | 740,252 | 143,385 | - | - |
| Loans to individuals | | | | |
| • Loans for houses and flats | 6,392 | - | - | - |
| • Consumer loans | 15,296 | 2 | - | - |
| Loans to other customers | | | | |
| • Loans to large corporate customers | 721,561 | 70,888 | 24,023 | 1,266 |
| • Loans to small and medium enterprises | 18,655 | 53,414 | 24,106 | 725 |
| Other assets | 15,138 | 14,102 | 230 | 35 |
| **TOTAL** | **2,707,903** | **366,970** | **62,404** | **2,026** |

| in thousand of euros | 31.12.2008 | | | |
|---|---|---|---|---|
| | Internal rating grade | | | |
| | A | B | C | D and E |
| Loans to government | 42,307 | - | - | - |
| Loans to banks | 672,494 | 78,491 | 19,855 | 1,806 |
| Loans to financial organizations | 206,317 | 40,651 | - | - |
| Loans to individuals | | | | |
| • Loans for houses and flats | 109 | - | - | - |
| • Consumer loans | 12,605 | 2 | 5 | - |
| Loans to other customers | | | | |
| • Loans to large corporate customers | 936,958 | 130,050 | 8,639 | - |
| • Loans to small and medium enterprises | 113,974 | 113,661 | 12,737 | 290 |
| Other assets | 10,469 | 1,567 | 13 | 9 |
| **TOTAL** | **1,995,233** | **364,422** | **41,249** | **2,105** |

## f) Loans and advances past due but not impaired

| in thousand of euros | 31.12.2009 | | | | |
|---|---|---|---|---|---|
| | Up to 30 days | Up to 90 days | Over 90 days | Total | Fair value of collateral |
| Loans to banks | - | - | - | - | - |
| Loans to financial organizations | 27,612 | 3,882 | 1 | 31,495 | 27,612 |
| Loans to individuals | | | | | |
| • Loans for houses and flats | 1 | - | - | 1 | 1 |
| • Consumer loans | 98 | - | - | 98 | 98 |
| Loans to other customers | | | | | |
| • Loans to large corporate customers | 5,615 | 951 | 216 | 6,782 | 5,644 |
| • Loans to small and medium enterprises | 579 | 346 | 4,416 | 5,341 | 2,588 |
| Other assets | 637 | 32 | 20 | 689 | 563 |

Table includes gross amounts of loans and advances. Part of gross loans and advances that is not past due represents 99.94% of loans to financial organizations, 81.10% of loans to large corporate customers, 94.75% of loans to SME and 83.57% of other assets.

| in thousand of euros | 31.12.2008 | | | | |
|---|---|---|---|---|---|
| | Up to 30 days | Up to 90 days | Over 90 days | Total | Fair value of collateral |
| Loans to banks | 34 | 85 | 958 | 1,077 | 816 |
| Loans to financial organizations | 398 | - | - | 398 | 229 |
| Loans to individuals | | | | | |
| • Consumer loans | - | - | 1 | 1 | 1 |
| Loans to other customers | | | | | |
| • Loans to large corporate customers | 3,518 | - | - | 3,518 | 39 |
| • Loans to small and medium enterprises | 109 | 93 | 297 | 499 | 808 |
| Other assets | 94 | 18 | 18 | 130 | 246 |

Part of gross loans and advances that is not past due represents 66.21% of loans to banks, 98.63% of loans to financial organizations and 99.23% of loans to large corporate customers.

The Bank receives different types of collateral to mitigate credit risk. In the year 2009 the Bank put a special effort into obtaining quality collateral for new and existing investments. The decision about the type and value of collateral depends on customer analysis. The Bank is trying to receive high-quality collateral, which among other things also improves the Bank's capital and results in lower allowances for loan losses. Long-term loans in particular are collateralized, mostly with mortgages and charges over business assets such as premises, inventory and accounts receivable. The value of collateral is regularly reviewed and in the event of its decrease the Bank requires that the customer provide additional collateral.

### g) Impaired loans and advances

| in thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Individually impaired loans | Fair value of collateral | Individually impaired loans | Fair value of collateral |
| Loans to government | 16,608 | 10,833 | 18,481 | 12,055 |
| Loans to banks | 3,067 | 1,740 | 7,041 | 7,189 |
| Loans to financial organizations | 170,221 | 127,821 | 909,258 | 346,880 |
| Loans to individuals | | | | |
| Granted overdrafts | 16 | - | 2 | - |
| Loans for houses and flats | 915 | 1,246 | - | - |
| Consumer loans | 12,479 | 14,904 | - | - |
| Other loans | 2 | - | - | - |
| Loans to other customers | | | | |
| Loans to large corporate customers | 1,122,746 | 1,011,320 | 2,398,681 | 1,679,577 |
| Loans to small and medium enterprises | 797,573 | 909,404 | 1,504,601 | 1,323,927 |
| **TOTAL** | **2,123,627** | **2,077,268** | **4,838,064** | **3,369,628** |

Impairment provisions for individually impaired loans as at 31 December 2009 amounted to Euro 429,261 thousand (31 December 2008: Euro 302,352 thousand).

### h) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that payment will most likely continue.

Renegotiated loans that would otherwise be past due or impaired totaled Euro 332,801 thousand at 31 December 2009 (31 December 2008: Euro 249,729 thousand).

### i) Repossessed property

The Bank obtained assets by taking possession of collateral held as security and recognized it in its balance sheet, as follows:

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Nature of assets** | Carrying amount | |
| Securities (note 5.4.b) | 156,756 | - |
| Non-current assets held for sale (note 5.10.) | 1,287 | 2,511 |
| Investment property held for sale (note 5.10.) | 219 | 237 |
| Other assets | 65 | 65 |
| Property and equipment (note 5.11.) | 7 | 7 |
| **TOTAL** | **158,334** | **2,820** |

### j) Analysis of loans and advances by industry sectors

| in thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| **Industry sector** | Net loans | (%) | Net loans | (%) |
| Banks | 1,313,118 | 12.19 | 848,425 | 8.03 |
| Financial organizations | 1,045,882 | 9.71 | 1,003,572 | 9.50 |
| Electricity, gas and water | 110,744 | 1.03 | 117,705 | 1.11 |
| Construction industry | 823,915 | 7.65 | 747,243 | 7.07 |
| Heavy industry | 1,368,375 | 12.71 | 1,448,080 | 13.70 |
| Education | 7,696 | 0.07 | 8,348 | 0.08 |
| Agriculture, forestry and fishing | 65,040 | 0.60 | 65,554 | 0.62 |
| Public sector | 100,483 | 0.93 | 108,466 | 1.03 |
| Individuals | 1,991,398 | 18.50 | 1,903,160 | 18.01 |
| Mining | 37,938 | 0.35 | 32,837 | 0.31 |
| Entrepreneurs | 158,485 | 1.47 | 184,070 | 1.74 |
| Services | 1,564,814 | 14.53 | 1,807,826 | 17.10 |
| Transport and communications | 1,173,567 | 10.90 | 1,108,474 | 10.49 |
| Trade industry | 988,043 | 9.17 | 1,158,982 | 10.97 |
| Health care and social security | 20,328 | 0.19 | 25,057 | 0.24 |
| **TOTAL** | **10,769,826** | **100.00** | **10,567,799** | **100.00** |

### k) Analysis of loans and advances by geographical sectors

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Country** | | |
| Republic of Slovenia | 8,173,248 | 8,260,979 |
| European Union | 959,764 | 549,047 |
| Other countries | 1,636,814 | 1,757,773 |
| **TOTAL** | **10,769,826** | **10,567,799** |

### l) Analysis of debt securities, treasury bills, other eligible bills and derivative financial instruments by geographical sectors

| in thousand of euros | 31.12.2009 | | | | 31.12.2008 | | | |
|---|---|---|---|---|---|---|---|---|
| **Country** | Trading assets | Available for sale financial assets | Held to maturity investments | Derivative financial instruments | Trading assets | Available for sale financial assets | Held to maturity investments | Derivative financial instruments |
| Republic of Slovenia | 12,247 | 958,742 | 233,261 | 47,677 | 122,486 | 362,078 | 219,789 | 36,606 |
| European Union | 200,397 | 1,329,287 | 346,055 | 38,921 | 191,994 | 1,318,400 | 370,611 | 16,467 |
| Other countries | 2,421 | 6,213 | - | 9,543 | 3,237 | 17,145 | - | 17,581 |
| **TOTAL** | **215,065** | **2,294,242** | **579,316** | **96,141** | **317,717** | **1,697,623** | **590,400** | **70,654** |

### m) Internal rating of derivatives counterparties

| | 31.12.2009 | 31.12.2008 |
|---|---|---|
| | in % | in % |
| A | 95.36 | 89.04 |
| B | 4.55 | 7.56 |
| C | 0.09 | 3.40 |
| D and E | 0.00 | 0.00 |
| **TOTAL** | **100.00** | **100.00** |

No derivatives in the banking book are entered into with counterparties with external rating less than AA. When derivatives are entered into on behalf of customers all such transactions are covered through back-to-back transactions involving third parties with external rating of AA or above.

#### n) Debt securities in the Bank's portfolio that represent subordinated liabilities for the issuer

| in thousand of euros | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Available for sale financial assets | 3,086 | 7,241 |
| Trading assets | 2,382 | 7,503 |
| **TOTAL** | **5,468** | **14,744** |

Securities in the amount of Euro 0 thousand (31 December 2008: Euro 4,813 thousand) represent subordinated bonds of domestic issuer with Fitch LT Issuer Default Rating BBB.

Other issuers (Slovenian banks and financial institutions) don't have external ratings. Internally they are all rated as A, except for two issuers with B rating. Subordinated liabilities of the B rated issuers in the Bank's portfolio amounted to Euro 3,086 thousand as at 31 December 2009 (31 December 2008: Euro 2,331 thousand).

## 6.2. Market risk management

Market risk is the risk that the market or fair value of financial instruments could fluctuate due to changes in the interest rate, foreign exchange and equities markets. Market risk management is a process comprising the monitoring and measurement of individual risks with the aim of actively managing the potential negative financial effects that could arise as a result of changes in market prices.

Stress tests are based on the Bank's relevant  net open positions which include all relevant financial instruments considering sensitivity to certain type of market risk (example: hypothetical loss assessment derived from FX risk includes the sensibility of all currencies in which the Bank has an open position). The Bank performs hypothetical and historical scenarios (in accordance with Basel II recommendation). Hypothetical stress scenarios include possible/predictable movements of market rates (example: in the case of an interest rate parallel shift of the yield curve by 200 basis points), meanwhile historical scenarios arise from real historical movements of market rates in the past (example: non-parallel movement of the yield curve based on the historical interest rate volatility). Stress test results are regularly presented to the ALM Committee.

#### a) Capital markets summary

#### Slovenia

The Slovenian capital market we saw non-uniformity price movements, especially in the second half of the previous year. The index achieved its highest level on 16 October 2009 at 4,633.4 points (to indicate +26.5% gain compared to the beginning of the year). The index completed previous year gradually lower, ending at 4,078.6 points, to signify 11.4% higher than the year before. Among stocks, included in SBI20, stocks of Zavarovalnica Triglav were the biggest gainers in 2009, posted 66.5% growth. On the prime market the clear winners were stocks of the pharmaceutical company Krka with 32.7% growth. Market capitalization for both, prime and standard markets shares at the end of 2009 stood at 8,461.7 mio Euros, presentation 3.4% more than at the end of 2008. One of the highlights of 2009 was the admission of the LJSE's first ever remote member (ecetra Central European e-Finance AG), which has enabled foreign investors direct access to the Slovene market.

Among the reasons why the Slovenian stock market returns were lower compared to the majority of other markets in 2009 are lessening improvements of Slovenian economic activity compared to those in the west, deteriorated results of Slovenian blue chips, anxiety what the future will bring and outperformance of the SBI20 index in previous years. According to the ATVP there were positive inflows in mutual funds in the second half of 2009, and from July to November positive inflows amounted to 13.7 mio Euros.

The Gross Domestic Product (GDP) in Slovenia expanded at an annual rate of 1% in the third quarter of 2009. Industrial Production in Slovenia expanded 2.7% during the last surveyed month. Slovenia witnessed deflation over four months in 2009, with annual inflation amounting to 1.8%, which is 0.3 percentage points less than in 2008. The weaker macroeconomic picture of the national economy also affected the labor market. At the end of the year there were officially 96,672 unemployed people, the unemployment rate in Slovenia was 10.3% in December of 2009. Compared to December 2008 unemployment was higher by 45.9%.

**World**

Leading economisis have called the global financial crisis the worst financial crisis since the one related to the Great Depression of the 1930s. It has contributed to the failure of key businesses, declines in consumer wealth estimated in the billions of Euros, substantial financial commitments incurred by governments, and a significant decline in economic activity. The collapse of the global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to housing prices to plummet thereafter, damaging financial institutions globally.

The International Monetary Fund (IMF) estimated that large U.S. and European banks lost more than 1,000 billion EUR on toxic assets and from bad loans from January 2007 to September 2009. These losses are expected to top 2,000 billion Euros from 2007-2010. This interrupted the ability of corporations to rollover (replace) their short-term debt. The governments responded by extending insurance for money market accounts analogous to bank deposit insurance via a temporary guarantee and with programs to purchase commercial paper. Total home equity in the United States, which was valued at 9,000 billion Euros at its peak in 2006, had dropped to 6,000 billion Euros by the end of 2008 and was still falling in 2009 (the U.S. home mortgage debt relative to gross domestic product increased from an average of 46% during the 1990s to 73% during 2008). To offset this decline in consumption and lending capacity, the U.S. government and FED have committed 10,000 billion Euros. In effect, the FED has gone from being the "lender of last resort" to the "lender of only resort" for a significant portion of the economy. In some cases the FED was considered the "buyer of last resort." This was the largest liquidity injection into the credit market, and the largest monetary policy action in world history. In the post World War II era, the government has attacked recessions with an average fiscal stimulus of 2.6% of GDP and an average monetary stimulus of 0.3% of GDP, for a combined countercyclical lift of 2.9%. This time out, the fiscal stimulus is likely to measure 10% of GDP, monetary stimulus 9.5% of GDP, for a combined equivalent to 19.5% of GDP.

The underlying debt burden is greater than it was after the World War II. Even without fresh spending, public debt might explode within two years to 105% of GDP in the UK, 100% in the US and the eurozone, and more than 200% in Japan. Worldwide government debt would reach 30,000 billion Euros, up two-and-a-half times in a decade. An over-leveraged economy is one prone to deflation and stagnant growth. The household sector continued to pay down debt for the fourth consecutive quarter. Corporates also started to pay down debt sharply in Q2 2009 at a similar 150 billion Euros pace (only six of the 100 largest US bond issues in 2009 gave investment, capital expenditure or R&D as the reason for obtaining additional money. Instead, companies are mainly seeking to shore up their balance sheets). The non-financial private sector paid down debt at a 350 billion Euros pace in same quarter. With continued private sector de-leveraging likely this year and beyond, relapse back into recession is not something that is not possible. Consumers (USA household debt as a percentage of annual disposable personal income was 127% at the end of 2007, versus 77% in 1990) will almost certainly keep on deleveraging from their debt (in 1981, U.S. private debt was 123% of GDP; by the end quarter of 2008, it was 290%).

It looks like all these massive governments spending helped world economy to grow again. Conditions in financial markets have generally improved in recent months. The rally that brought the stock market back from the brink in 2009 was one of the biggest ever. Markets achieved their lowest point on first half of March last year, since then they progressed at lightning speed. American broad equity index S&P 500 have gained more than 50% in EUR terms since then, DAX more than 55%, Nikkei more than 35%, Russian RTS even more than 140% year to date. From the beginning of this past March, bond mutual funds have received a net inflow of some 150 billion Euros. The comparable total for U.S. equity mutual funds is "just" 7 billion Euros, or less than 5% as much. Economic projections for the developed countries include a return to typical growth levels (GDP) of 2-3% in 2010; an unemployment around 10% with moderation in 2011.

### Equity trading portfolios excluding equity investments hedged with forward contracts

#### Geographical structure

| | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Region** | in % | in % |
| Europe | 8.6 | 13.9 |
| Diversified Mutual Funds and Closed-end Funds | 57.0 | 49.9 |
| Slovenia | 23.8 | 17.7 |
| North America | 6.5 | 11.1 |
| Asia (ETF) | 3.7 | 7.3 |
| Rest of the World | 0.4 | 0.1 |

#### Industry structure

| | 31.12.2009 | 31.12.2008 |
|---|---|---|
| **Industry** | in % | in % |
| Basic Materials | 1.1 | 2.5 |
| Telecommunications | 1.2 | 1.9 |
| Consumer Cyclical | 1.4 | 2.7 |
| Consumer Non-cyclical | 1.9 | 3.8 |
| Energy | 2.5 | 3.8 |
| Financial | 3.2 | 5.2 |
| Industrial | 25.7 | 20.6 |
| Technology | 2.7 | 3.2 |
| Utilities | 1.0 | 2.2 |
| Healthcare | 2.3 | 4.2 |
| Diversified Closed-end funds and Mutual Funds | 57.0 | 49.9 |

### b) Value at Risk methodology

In accordance with IFRS 7 the exposure to market risk is shown through »Value at Risk« (VaR) methodology for currency and other market risks in the trading book (interest rate risk and equity risk). The bank uses VaR methodology on a daily basis for monitoring and managing these risks.

The bank regularly monitors and manages interest rate exposure in the banking book by interest income sensitivity analysis based on the interest rate gap method. In terms of equity investments in the banking book, the exposure to risks is expressed through VaR and sensitivity analysis.

#### Currency risk

For currency risk the Bank uses an internal »Value at Risk« (VaR) model based on open FX positions. Daily calculation of the VaR value is adjusted to Basel standards (99% confidence interval, monitored period of 300 business days, 10-day of holding a position) and based on the historical simulation method. VaR is calculated for exchange risk for the entire open Bank position (the position of trading and banking book together) because the position is also managed at the entire level by the Treasury department.

Currency risk exposure increased in May 2009 due to an increase in the RSD (Serbian Dinar) currency position arising from a structural mismatch. An increase in the open RSD position is derived from restructured loans, the related currency conversion and the accounting presentation of the advance from the repurchase of a minority share and capital increase of the subsidiary company in Serbia. Apart from the aforementioned position an increase in currency volatilities also contributed to a larger VaR value. The is reflected in a greater average value of FX VaR in the year 2009.

### Other market risks in the trading book

The bank uses an internal VaR model based on the variance-covariance method for other market risks. Daily calculation of the VaR value is adjusted to the Basel standards (99% confidence interval, monitored period of 250 business days, 10-day of holding a position).

In 2009, the interest rate risk in the trading book on average amounted to Euro 435 thousand. In 2009 the portfolio of debt securities decreased to Euro 20 mio in terms of market value, whereas the exposure form derivatives trading originated primarily from interest rate future contracts.

The equity risk in the trading book in the year 2009 oscillated between Euro 3.4 and 5.8 mio with the exception of July 2009 when the maximum value of VaR in the amount of Euro 7.8 mio was reached. During this month the value of the strategic portfolio in the trading book increased as received collateral for credit loans was realised by the Bank.

| VaR in thousand of euros | 2009 | | |
|---|---|---|---|
| | Average VaR | Maximum VaR | Minimum VaR |
| Currency risk (trading book and banking book) | 1,966 | 3,194 | 57 |
| Interest rate risk in trading book | 453 | 966 | 108 |
| Equity risk in trading book | 4,814 | 7,786 | 3,386 |

| VaR in thousand of euros | 2008 | | |
|---|---|---|---|
| | Average VaR | Maximum VaR | Minimum VaR |
| Currency risk (trading book and banking book) | 112 | 493 | 28 |
| Interest rate risk in trading book | 675 | 1,139 | 382 |
| Equity risk in trading book | 3,254 | 9,627 | 3,254 |

The average, maximum and minimum values in the table above are calculated on the basis of daily VaR calculations based on daily open positions and the fluctuations of market data in the past monitored period (300 or 250 working days). The "average" value represents the arithmetic mean of daily VaR values in 2009, whereas the "maximum" and "minimum" values represent the largest and smallest values of daily VaR calculations in 2009 respectively.

### Interest rate risk in the banking book

Interest rate exposure is monitored and managed by using the methodology of interest rate gaps. On the basis of this methodology, the Bank assesses interest income sensitivity. The analysis of interest income sensitivity assumes a shift of the interest rates by 50 basis points in the short term. The analysis is based on the assumption that the positions used remain unchanged and that the yield curve shift is parallel.

The assessment of the affect of the change in interest rates by 50 basis points (+/- 0.5%) on the value of net interest income for the banking book position:

| in thousand of euros | 2009 | | |
|---|---|---|---|
| | Average (assessment) | Minimum (assessment) | Maximum (assessment) |
| EUR: Interest income sensitivity | 2,061 | 12 | 4,049 |
| USD: Interest income sensitivity | 158 | 18 | 304 |
| CHF: Interest income sensitivity | 141 | 1 | 374 |

| in thousand of euros | 2008 | | |
|---|---|---|---|
| | Average (assessment) | Minimum (assessment) | Maximum (assessment) |
| EUR: Interest income sensitivity | 490 | 111 | 831 |
| USD: Interest income sensitivity | 31 | 17 | 97 |
| CHF: Interest income sensitivity | 23 | 2 | 54 |

In 2009 the value of interest income sensitivity has remained relatively stable. The exposure to interest rate risk for the most part derives from the portfolio of first rate bonds (ECB eligible), which represent a source of secondary liquidity. The exposure arising from classic loan-deposit deals was relatively low.

The values in the table have been calculated on the basis of monthly calculations of short-term interest rate gaps, in which the applied parallel shift of the yield curve by 50 basis points represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations in 2009, while the "maximum" and "minimum" values represent the largest and smallest values calculated in the aforementioned period.

**Equity risk of the equities portfolio in the banking book**

In terms of equity investments the Bank implements policies for their management that were approved by the Management and the Supervisory board. The policies deal with the allowed investment structure of the portfolio, its diversification, the monitoring and measurement of risks. For monitoring and measuring the risks of the equity portfolio, the Bank uses the standardised methodology as well as an internal model, which has been adapted to the requirements of Basel standards.

The size of the equities portfolio in the banking book amounted to Euro 184.2 mio by the end of 2009 (2009: of this Euro 116.1 mio represented realized collateral and Euro 68.1 mio represented the long-term portfolio; 2008: Euro 23.7 mio). The value of VaR for the equities portfolio in the banking book amounted to Euro 20,105 thousand by the end of 2009 (2008: Euro 3,731 thousand). On the assumption that the stock market indices would fall by 15%, the value of the portfolio would decrease by Euro 27.6 mio.

**c) Currency risks (FX)**

The Bank manages currency risks in accordance with the adopted Currency risk management policy adopted by the Bank's Assets and Liabilities Committee. The positions of all currencies in the balance sheet of NLB d.d. for which the limit is set are determined at the daily level.

Exposure to currency risks is monitored and managed by the Assets and Liabilities Management Department on the basis of daily data obtained from the Risk Management Department. ALM manages exposure to currency risks by currency, so that they are always within the limits.

Exposure to currency risks is discussed at daily liquidity meetings and monthly meetings of the Bank's Assets and Liabilities Committee.

## The amount of financial instruments denominated in Euros and in foreign currency

| in thousand of euros | | | 31.12.2009 | | |
|---|---|---|---|---|---|
| | EUR | USD | CHF | Other | Total |
| **FINANCIAL ASSETS** | | | | | |
| Cash and balances with Central Bank | 369,752 | 2,039 | 5,069 | 5,127 | 381,987 |
| Trading assets | 336,708 | 7,403 | 343 | 6,587 | 351,041 |
| Financial assets designated at fair value through profit and loss | 28,114 | - | - | - | 28,114 |
| Available for sale financial assets | 2,474,171 | 6,444 | - | 1,040 | 2,481,655 |
| Derivatives - hedge accounting | 28,703 | - | - | - | 28,703 |
| Loans and advances to banks | 1,120,261 | 119,012 | 32,782 | 41,063 | 1,313,118 |
| Loans and advances to customers | 8,919,241 | 84,354 | 353,454 | 99,659 | 9,456,708 |
| Held to maturity investments | 579,316 | - | - | - | 579,316 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 500 | - | - | - | 500 |
| Other assets | 46,817 | 450 | 1,189 | 1,374 | 49,830 |
| **TOTAL FINANCIAL ASSETS** | **13,903,583** | **219,702** | **392,837** | **154,850** | **14,670,972** |
| | | | | | |
| **FINANCIAL LIABILITIES** | | | | | |
| Deposits from Central Bank | 802,036 | - | - | - | 802,036 |
| Trading liabilities | 57,204 | - | - | - | 57,204 |
| Derivatives - hedge accounting | 32,916 | - | - | - | 32,916 |
| Deposits from banks | 281,909 | 46,237 | 5,329 | 2,528 | 336,003 |
| Borrowings from banks | 1,996,401 | 79,243 | 120,990 | - | 2,196,634 |
| Due to customers | 8,029,968 | 107,513 | 27,390 | 26,314 | 8,191,185 |
| Borrowings from other customers | 10,108 | - | - | - | 10,108 |
| Debt securities in issue | 1,769,606 | - | - | - | 1,769,606 |
| Subordinated liabilities | 784,911 | - | - | - | 784,911 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 26 | - | - | - | 26 |
| Other liabilities | 91,384 | 126 | 11 | 18 | 91,539 |
| **TOTAL FINANCIAL LIABILITIES** | **13,856,469** | **233,119** | **153,720** | **28,860** | **14,272,168** |
| | | | | | |
| **NET ON-BALANCE SHEET FINANCIAL POSITION** | **47,114** | **(13,417)** | **239,117** | **125,990** | **398,804** |
| | | | | | |
| Derivative financial instruments (Notional amounts) | 354,812 | (38,329) | (245,765) | (108,069) | (37,351) |
| | | | | | |
| 31.12.2008 | | | | | |
| **TOTAL FINANCIAL ASSETS** | **12,871,451** | **231,043** | **493,332** | **96,008** | **13,691,834** |
| **TOTAL FINANCIAL LIABILITIES** | **12,797,375** | **230,434** | **145,501** | **30,089** | **13,203,399** |
| **NET ON-BALANCE SHEET FINANCIAL POSITION** | **74,076** | **609** | **347,831** | **65,919** | **488,435** |
| | | | | | |
| Derivative financial instruments (Notional amounts) | 336,815 | 5,772 | (353,036) | (60,212) | (70,661) |

## Sensitivity analysis for currency risk

| in thousand of euros | 31.12.2009 | | | |
|---|---|---|---|---|
| | Effects on income statement | | Effects on equity | |
| | Appreciation of foreign currency | Depreciation of foreign currency | Appreciation of foreign currency | Depreciation of foreign currency |
| Financial assets | | | | |
| • Loans and deposits | 71,004 | (58,061) | - | - |
| • Securities | 2,212 | (1,741) | 55 | (44) |
| • Other assets | 167 | (137) | - | - |
| **TOTAL FINANCIAL ASSETS** | **73,383** | **(59,939)** | **55** | **(44)** |
| Finacial liabilities | | | | |
| • Borrowings, deposits, debt securities in issue | (45.249) | 36.220 | - | - |
| • Other liabilities | (19) | 15 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(45,268)** | **36,235** | **-** | **-** |
| Derivative financial instruments | (24,713) | 27,130 | - | - |
| **Effects on profit/equity before tax** | **3,402** | **3,426** | **55** | **(44)** |

| in thousand of euros | 31.12.2008 | | | |
|---|---|---|---|---|
| | Effects on income statement | | Effects on equity | |
| | Appreciation of foreign currency | Depreciation of foreign currency | Appreciation of foreign currency | Depreciation of foreign currency |
| Financial assets | | | | |
| • Loans and deposits | 103,769 | (80,097) | - | - |
| • Securities | 5,252 | (3,903) | 287 | (112) |
| • Other assets | 368 | (278) | - | - |
| **TOTAL FINANCIAL ASSETS** | **109,389** | **(84,278)** | **287** | **(112)** |
| Finacial liabilities | | | | |
| • Borrowings, deposits, debt securities in issue | (58,718) | 44,507 | - | - |
| • Other liabilities | (15) | 11 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(58,733)** | **44,518** | **-** | **-** |
| Derivative financial instruments | (38,319) | 31,352 | - | - |
| **Effects on profit/equity before tax** | **12,337** | **(8,408)** | **287** | **(112)** |

| **Scenarios** | 31.12.2009 | 31.12.2008 |
|---|---|---|
| USD | +/- 13% | +/- 15% |
| CHF | +/- 6% | +/- 10% |
| CZK | +/- 12% | +/- 15% |
| RSD | +/- 8% | +/- 13% |
| MKD | +/- 2% | +/- 2% |
| JPY | +/- 16% | +/- 25% |
| AUD | +/- 14% | +/- 21% |
| HUF | +/- 16% | +/- 16% |
| SKK | - | +/- 4.5% |
| HRK | +/- 5% | - |

**d) Interest rate risk**

Management of interest rate risks in the NLB banking book is separated from the measurement and monitoring of such risks. In the past, the Bank has formulated and started implementing the Interest Rate Risk Management Policy, which reflects the conservative strategy of assuming interest rate risks and is based on general Basel standards of risk management.

In the banking book, the Bank has been managing interest rate risks arising from interest-insensitive items on the liabilities side and interest-sensitive items without maturity (available capital and stable sight deposits) separately from all other banking book transactions. The management of interest rate risks arising from interest-insensitive items and items without maturity is provided by means of managing the securities portfolio of the banking book and determining the upper limit of modified duration.

Management of interest rate risks arising from all other banking book transactions is provided based on managing the interest maturity of balance and off-balance sheet items, which the Bank classifies by time gaps. The openness of positions in gaps, in one or other direction, is defined in absolute amount. According to the recommendations of the Basel guidelines, the same restriction is applied to potential changes in the net present value of all interest-sensitive items.

The basic tool for the managing exposure to interest rate risk in the banking book is the management of the Bank's balance sheet items. The strategies that foresee adequate adjustments to the balance sheet items are treated and adopted at the executive level of the Bank or in the scope of the Bank's Assets and Liabilities Committee. The Bank has above all the following methods for managing its balance sheet:

- Managing the portfolio of debt securities in the banking book;
- Issuing its own securities;
- Introducing new banking products and special treatment of the existing ones; and
- Managing the maturity of existing balance sheet items.

The portfolio of debt securities of the banking book is subject to strict internal regulations defined in the Policy of Managing Debt Securities in the Banking Book. From the aspect of interest rate risk management the main purpose of this portfolio is to achieve stabilisation of the interest margin. In addition, the purpose of the securities portfolio of the banking book is to maintain secondary liquidity reserves. The composition of portfolio and the accounting classification of securities are defined on the basis of permissible credit and non-credit risks and target management of the Bank's capital.

The Bank's Assets and Liabilities Committee regularly discusses and supervises the adaptation of the offered range and price ratios of banking products in order to limit interest rate risk exposure.

When limiting the exposure to interest rate risks, the Bank also uses the determination of adequate interest maturity of its assets and liabilities.

More precise management of interest rate risk in the banking book is carried out by concluding transactions in derivatives, using the following instruments:

- Interest Rate Swaps;
- Overnight Index Swaps;
- Cross Currency Swaps;
- Forward Rate Agreements; and
- Interest Rate Futures.

## Analysis of financial instruments according to the Bank´s exposure to interest rate risk

The tables below summarize the Bank's exposure to interest rate risks of balance sheet items, without derivatives. They include the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

| in thousand of euros | 31.12.2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Non interest bearing | Interest bearing | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and balances with Central Bank | 381,987 | 99,499 | 282,488 | 282,488 | - | - | - | - |
| Trading assets | 351,041 | 68,862 | 282,179 | 267,406 | 633 | 3,509 | 3,789 | 6,842 |
| Financial assets designated at fair value through profit and loss | 28,114 | 28,114 | - | - | - | - | - | - |
| Available for sale financial assets | 2,481,655 | 205,458 | 2,276,197 | 354,734 | 348,789 | 1,013,844 | 295,630 | 263,200 |
| Derivatives - hedge accounting | 28,703 | 28,703 | - | - | - | - | - | - |
| Loans and advances to banks | 1,313,118 | 4,489 | 1,308,629 | 781,910 | 257,918 | 264,462 | - | 4,339 |
| Loans and advances to customers | 9,456,708 | 108,314 | 9,348,394 | 3,478,902 | 2,589,249 | 2,602,742 | 502,945 | 174,556 |
| Held to maturity investments | 579,316 | 14,753 | 564,563 | 5,002 | 50,072 | 17,061 | 266,034 | 226,394 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 500 | 500 | - | - | - | - | - | - |
| Other assets | 49,830 | 49,830 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **14,670,972** | **608,522** | **14,062,450** | **5,170,442** | **3,246,661** | **3,901,618** | **1,068,398** | **675,331** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Deposits from Central Bank | 802,036 | 2,036 | 800,000 | 400,000 | - | 400,000 | - | - |
| Trading liabilities | 57,204 | - | 57,204 | 57,204 | - | - | - | - |
| Derivatives - hedge accounting | 32,916 | 32,916 | - | - | - | - | - | - |
| Deposits from banks | 336,003 | 154 | 335,849 | 296,072 | 39,483 | 294 | - | - |
| Borrowings from banks | 2,196,634 | 7,408 | 2,189,226 | 992,254 | 548,593 | 639,618 | 7,804 | 957 |
| Due to customers | 8,191,185 | 62,866 | 8,128,319 | 4,383,269 | 1,186,918 | 1,653,706 | 895,172 | 9,254 |
| Borrowings from other customers | 10,108 | 31 | 10,077 | - | - | 10,008 | 69 | - |
| Debt securities in issue | 1,769,606 | 25,867 | 1,743,739 | 23,923 | 54,200 | 40,307 | 1,546,906 | 78,403 |
| Subordinated liabilities | 784,911 | 4,881 | 780,030 | 130,000 | 112,500 | - | 273,661 | 263,869 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 26 | 26 | - | - | - | - | - | - |
| Other liabilities | 91,539 | 91,539 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **14,272,168** | **227,724** | **14,044,444** | **6,282,722** | **1,941,694** | **2,743,933** | **2,723,612** | **352,483** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(1,112,280)** | **1,304,967** | **1,157,685** | **(1,655,214)** | **322,848** |

| in thousand of euros | 31.12.2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Non interest bearing | Interest bearing | Up to 1 Month | 1 Month to 3 Months | 3 Months to 1 Year | 1 Year to 5 Years | Over 5 Years |
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and balances with Central Bank | 307,250 | 105,778 | 201,472 | 201,472 | - | - | - | - |
| Trading assets | 459,433 | 82,507 | 376,926 | 63,095 | 194,562 | 5,154 | 6,152 | 107,963 |
| Financial assets designated at fair value through profit and loss | 1,019 | 1,019 | - | - | - | - | - | - |
| Available for sale financial assets | 1,327,919 | 44,390 | 1,283,529 | 187,649 | 254,033 | 428,404 | 234,858 | 178,585 |
| Derivatives - hedge accounting | 8,095 | 8,095 | - | - | - | - | - | - |
| Loans and advances to banks | 848,425 | 6,389 | 842,036 | 418,188 | 207,276 | 216,572 | - | - |
| Loans and advances to customers | 9,719,374 | 112,323 | 9,607,051 | 5,302,614 | 1,675,696 | 2,009,931 | 496,571 | 122,239 |
| Held to maturity investments | 590,400 | 14,941 | 575,459 | - | 27,604 | 38,002 | 257,765 | 252,088 |
| Pledged assets | 400,682 | 2,080 | 398,602 | - | 89,761 | 308,841 | - | - |
| Other assets | 29,237 | 29,237 | - | - | - | - | - | - |
| **TOTAL FINANCIAL ASSETS** | **13,691,834** | **406,759** | **13,285,075** | **6,173,018** | **2,448,932** | **3,006,904** | **995,346** | **660,875** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Deposits from Central Bank | 201,314 | 1,312 | 200,002 | 200,002 | - | - | - | - |
| Trading liabilities | 67,716 | - | 67,716 | 67,716 | - | - | - | - |
| Derivatives - hedge accounting | 10,048 | 10,048 | - | - | - | - | - | - |
| Deposits from banks | 508,910 | 4,912 | 503,998 | 230,642 | 239,222 | 34,046 | 21 | 67 |
| Borrowings from banks | 3,576,889 | 16,745 | 3,560,144 | 1,497,388 | 1,433,408 | 621,006 | 8,342 | - |
| Due to customers | 7,071,396 | 40,441 | 7,030,955 | 4,406,230 | 857,593 | 1,525,843 | 230,666 | 10,623 |
| Borrowings from other customers | 1,611 | - | 1,611 | 11 | - | - | 1,587 | 13 |
| Debt securities in issue | 468,872 | 6,888 | 461,984 | - | 53,880 | 214,242 | 116,668 | 77,194 |
| Subordinated liabilities | 839,290 | 9,495 | 829,795 | 129,625 | 162,500 | - | 273,962 | 263,708 |
| Financial liabilities associated to transferred assets | 400,518 | 683 | 399,835 | - | 399,835 | - | - | - |
| Other liabilities | 56,835 | 56,835 | - | - | - | - | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **13,203,399** | **147,359** | **13,056,040** | **6,531,614** | **3,146,438** | **2,395,137** | **631,246** | **351,605** |
| **TOTAL INTEREST REPRICING GAP** | | | | **(358,596)** | **(697,506)** | **611,767** | **364,100** | **309,270** |

## Sensitivity analysis for interest rate risk

| in thousand of euros | 31.12.2009 | | | |
|---|---|---|---|---|
| | Effects on income statement (interest income/expense) | | Effects on equity | |
| | 1 % | -1 % | 1 % | -1 % |
| Financial assets | | | | |
| • Loans and deposits | 62,846 | (62,846) | - | - |
| • Securities | 2,408 | (2,408) | (17,692) | 17,692 |
| • Other assets | 6 | (6) | - | - |
| **TOTAL FINANCIAL ASSETS** | **65,260** | **(65,260)** | **(17,692)** | **17,692** |
| Finacial liabilities | | | | |
| • Borrowings, deposits, debt securities in issue | (32,875) | 32,875 | - | - |
| • Other liabilities | (3,000) | 3,000 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(35,875)** | **35,875** | **-** | **-** |
| **Effects on profit/equity before tax** | **29,385** | **(29,385)** | **(17,692)** | **17,692** |

| in thousand of euros | 31.12.2008 | | | |
|---|---|---|---|---|
| | Effects on income statement (interest income/expense) | | Effects on equity | |
| | 1 % | -1 % | 1 % | -1 % |
| Financial assets | | | | |
| • Loans and deposits | 84,976 | (84,976) | - | - |
| • Securities | 1,387 | (1,387) | (17,184) | 17,184 |
| • Other assets | 12 | (12) | - | - |
| **TOTAL FINANCIAL ASSETS** | **86,375** | **(86,375)** | **(17,184)** | **17,184** |
| Finacial liabilities | | | | |
| • Borrowings, deposits, debt securities in issue | (47,168) | 47,168 | - | - |
| • Other liabilities | (1,000) | 1,000 | - | - |
| **TOTAL FINANCIAL LIABILITIES** | **(48,168)** | **48,168** | **-** | **-** |
| **Effects on profit/equity before tax** | **38,207** | **(38,207)** | **(17,184)** | **17,184** |

### e) Liquidity risk

The entire area of liquidity risk management in NLB is based on the following documents:

- The liquidity risk management policy of NLB d.d.,
- The plan for liquidity management of the Bank in exceptional circumstances, and
- Scenarios for liquidity management in exceptional circumstances.

The Assets and Liabilities Committee adopted the said documents.
The Liquidity risk management policy of NLB d.d. specifically defines the methods of measuring, monitoring and managing the Bank's liquidity risk, criteria and scenarios of liquidity management and competencies and responsibilities.

The Plan for liquidity management of the Bank in exceptional circumstances defines guidelines and plan of activities with the aim of recognizing problems, searching for solutions and performing activities in exceptional circumstances as well as establishing a system for managing liquidity of the Bank which ensures maintaining the Bank's liquidity and protection of business interests of clients and shareholders of the Bank.

Pursuant to the Liquidity risk management policy of NLB d. d., the Bank shall be obliged to:

- Ensure sufficient scope of liquidity for the settlement of all the Bank’s liabilities, taking into account the criteria of rationality in the determination of the scope of liquidity reserves,

- Ensure that the Assets and Liabilities Committee of the Bank is regularly informed of the current and potential liquidity needs of the Bank,
- Ensure adequate procedures and methods of work for monitoring and managing the Bank's liquidity,
- Ensure compliance of the Policy with other internal documents regarding the Bank's assets and liabilities management,
- Ensure accurate understanding of the methods and possibilities of using liquidity reserves,
- Establish a system of regular reporting and informing of the Assets and Liabilities Committee and other competent bodies,
- Ensure compliance of the Policy with the Bank's plan for liquidity management of the Bank in exceptional circumstances and
- Ensure adequate system of education and support regarding the Bank's assets and liabilities management.

The Bank manages its liquidity on the basis of three approaches:
- The criterion of liquid assets or structure of the Bank's balance sheet,
- Alignment of cash flows,
- Combined, using the elements of both approaches (liquidity scale).

Based on the criterion of liquid assets, the Bank shall calculate, at least once a month, the structural liquidity indicators defined in the Policy.

On the basis of the criterion of cash flows alignment, the Bank draws up cash flow plans:
- Daily, for operational purposes, for a period of at least one month,
- Monthly stimulation of cash flows, taking into account all known and expected cash flows,
- Monthly plans of liquidity gaps for different time periods, taking into account several scenarios.

The combined plan of cash flows with the calculation of liquidity quotients comprises:
- A daily report based on the Decision of the Bank of Slovenia on Minimum Requirements for Providing Adequate Liquidity Position of Banks and Savings Banks; and
- A simulation of the changes in liquidity ratio for the months to come.

The Bank manages liquidity at three levels:
- At the operating level,
- At the structural level; and
- In exceptional circumstances.

Liquidity management at the operating level comprises:
- The Bank's cash flow planning and monitoring,
- Drafting several scenarios of the Bank's cash flows,
- Monitoring and ensuring compliance with the Central Bank's regulations related to liquidity,
- Compiling daily and other regular reports for the management of the business line and the Bank, as well as the decision-making bodies,
- Drafting of liquidity stress test scenarios,
- Ensuring adequate technological support for a reliable and efficient monitoring, planning and management of cash flows and
- Drafting of proposals for improvements and changes in the management of the Bank's operating liquidity.

Liquidity management at the structural level comprises:
- Determining structural liquidity indicators and their regular calculation and monitoring,
- Defining optimal and/or limit values of individual selected structural liquidity indicators,
- Monitoring of trends in the selected structural liquidity quotients,
- Monitoring liquidity gaps according to time intervals (static aspect) and preparing simulations (dynamic aspect);
- Preparing analyses and proposals for the changes in the structure of the Bank's balance sheet that influence the liquidity position and liquidity risk of the Bank.

The goal of the management of liquidity at the structural level is to achieve a structure of the Bank's balance sheet that will ensure the Bank's long-term liquidity based on the criteria of long-term maturity, alignment, forms and concentration of the sources of financing and realization and rating of assets.

Liquidity management in exceptional circumstances comprises:
- Preparing the Plan for Liquidity Management of the Bank in Exceptional Circumstances,
- Monitoring of conditions of the Bank's operations that could influence the methods, possibilities and quality of liquidity management in the Bank and
- Implementing activities defined by the Plan for Liquidity Management of the Bank in Exceptional Circumstances.

The Bank's liquidity position is discussed daily at liquidity meetings of the business line Financial Markets and Treasury of the NLB Group. As a rule, the Assets and Liabilities Committee monthly discusses the liquidity position and structure of the Bank's balance, in the case of exceptional circumstances in line with the provisions of the Plan for Liquidity Management of the Bank in Exceptional Circumstances, these issues are also discussed by the Management Board and the operating working group for monitoring liquidity.

## Non-derivative cash flows

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, prepared on the basis of spot rates at the balance sheet date.

| in thousand of euros | 31.12.2009 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
| **FINANCIAL LIABILITIES** | | | | | | |
| Deposits from Central Bank | - | - | 807,983 | - | - | 807,983 |
| Deposits from banks | 296,088 | 39,672 | 296 | - | - | 336,056 |
| Borrowings from banks | 5,682 | 18,034 | 775,558 | 1,025,277 | 471,120 | 2,295,671 |
| Due to customers | 4,372,205 | 1,204,084 | 1,716,281 | 1,006,461 | 17,307 | 8,316,338 |
| Borrowings from other customers | 31 | - | 146 | 625 | 10,206 | 11,008 |
| Debt securities in issue | 4,267 | 1,689 | 66,739 | 1,768,199 | 82,766 | 1,923,660 |
| Subordinated liabilities | 7,345 | 2,204 | 9,619 | 438,611 | 404,543 | 862,322 |
| Other liabilities and provisions | 51,429 | 3,106 | 18 | 70,214 | - | 124,767 |
| **TOTAL FINANCIAL LIABILITIES** | **4,737,047** | **1,268,789** | **3,376,640** | **4,309,387** | **985,942** | **14,677,805** |
| **TOTAL FINANCIAL ASSETS** | **2,871,419** | **2,168,513** | **4,804,196** | **5,021,417** | **3,349,085** | **18,214,630** |

When determining the gap between the financial liabilities and financial assets in the maturity class up to 1 month, it is necessary to take into account the fact that financial liabilities include total sight deposits and that the Bank may apply a stability weight of 50% to sight deposits when assuring compliance with the Central Bank regulations concerning the calculation of liquidity position. To assure Bank liquidity and based on its conservative approach to risk, NLB has already in the preceding years compiled a substantial amount of high-quality liquidity placements, mostly government securities, which are assets accepted as adequate financial assets by the ECB and is also carrying out the activities to enter the selected adequate loans in the loan register kept by the Bank of Slovenia, which will allow the Bank to pledge these loans in order to gain liquidity by using the ECB instruments.

| in thousand of euros | 31.12.2008 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
| **FINANCIAL LIABILITIES** | | | | | | |
| Deposits from Central Bank | 201,898 | - | - | - | - | 201,898 |
| Deposits from banks | 230,787 | 245,551 | 35,111 | 22 | 74 | 511,545 |
| Borrowings from banks | 16,546 | 145,260 | 1,649,009 | 1,661,127 | 429,186 | 3,901,128 |
| Due to customers | 4,356,553 | 873,038 | 1,629,255 | 285,306 | 19,615 | 7,163,767 |
| Borrowings from other customers | 11 | - | - | 1,587 | 13 | 1,611 |
| Debt securities in issue | 6,569 | 2,058 | 201,530 | 232,374 | 84,694 | 527,225 |
| Subordinated liabilities | 9,119 | 6,234 | 80,251 | 432,134 | 552,436 | 1,080,174 |
| Financial liabilities associated to transferred assets | - | 400,518 | - | - | - | 400,518 |
| Other liabilities and provisions | 52,062 | 4,234 | 168 | 32,601 | - | 89,065 |
| **TOTAL FINANCIAL LIABILITIES** | **4,873,545** | **1,676,893** | **3,595,324** | **2,645,151** | **1,086,018** | **13,876,931** |
| **TOTAL FINANCIAL ASSETS** | **2,222,721** | **2,560,135** | **3,083,104** | **4,596,457** | **3,002,671** | **15,465,088** |

Subordinated liabilities are included in the maturity group based on periods when the call options can be exercised according to the characteristics described in a note 5.19.

## Derivative cash flows

All of the Bank's derivatives, except for some interest rate swaps, are settled on a gross basis. The table below analyses the Bank's derivative financial instruments into relevant maturity groupings based on the remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, prepared on the basis of spot rates at balance sheet date.

| in thousand of euros | 31.12.2009 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
| **FOREIGN EXCHANGE DERIVATIVES** | | | | | | |
| • Forwards | | | | | | |
| • Outflow | (18,492) | (40,945) | (48,855) | (156) | (4,706) | (113,154) |
| • Inflow | 22,522 | 44,891 | 45,652 | 147 | - | 113,212 |
| • Swaps | | | | | | |
| • Outflow | (144,926) | (171,814) | (132,795) | (147) | - | (449,682) |
| • Inflow | 145,201 | 170,792 | 132,883 | 156 | - | 449,032 |
| • Options | | | | | | |
| • Outflow | (5,648) | (15,781) | (69,678) | (102,576) | (41,778) | (235,461) |
| • Inflow | 2,832 | 32,286 | 97,343 | 102,576 | 31,833 | 266,870 |
| • Futures | | | | | | |
| • Outflow | - | (15,677) | - | - | - | (15,677) |
| • Inflow | - | 15,687 | - | - | - | 15,687 |
| | | | | | | |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| • Interest rate swaps and cross-currency swaps | | | | | | |
| • Outflow | (8,305) | (56,024) | (79,454) | (236,346) | (156,996) | (537,125) |
| • Inflow | 4,847 | 48,991 | 90,426 | 221,023 | 162,290 | 527,577 |
| • Forwards | | | | | | |
| • Outflow | (1) | (45) | - | - | - | (46) |
| • Inflow | 6 | - | - | - | - | 6 |
| • Caps and floors | | | | | | |
| • Outflow | (58) | (51) | (883) | (595) | (11) | (1,598) |
| • Inflow | 62 | 53 | 897 | 612 | 11 | 1,635 |
| | | | | | | |
| **TOTAL OUTFLOW** | **(177,430)** | **(300,337)** | **(331,665)** | **(339,820)** | **(203,491)** | **(1,352,743)** |
| **TOTAL INFLOW** | **175,470** | **312,700** | **367,201** | **324,514** | **194,134** | **1,374,019** |

| in thousand of euros | 31.12.2008 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
| **FOREIGN EXCHANGE DERIVATIVES** | | | | | | |
| • Forwards | | | | | | |
| • Outflow | (39,992) | (59,633) | (69,694) | (10,779) | - | (180,098) |
| • Inflow | 40,398 | 59,736 | 69,256 | 10,789 | - | 180,179 |
| • Swaps | | | | | | |
| • Outflow | (221,820) | (205,355) | (132,949) | (2,395) | - | (562,519) |
| • Inflow | 216,931 | 200,486 | 131,430 | 2,483 | - | 551,330 |
| • Options | | | | | | |
| • Outflow | (11,719) | (39,466) | (104,573) | (51,866) | (31,198) | (238,822) |
| • Inflow | 11,719 | 39,043 | 104,614 | 51,866 | 31,198 | 238,440 |
| • Futures | | | | | | |
| • Outflow | - | (8,217) | - | - | - | (8,217) |
| • Inflow | - | 8,204 | - | - | - | 8,204 |
| | | | | | | |
| **INTEREST RATE DERIVATIVES** | | | | | | |
| • Interest rate swaps and cross-currency swaps | | | | | | |
| • Outflow | (3,562) | (17,076) | (41,496) | (194,628) | (95,641) | (352,403) |
| • Inflow | 3,999 | 16,689 | 42,053 | 182,317 | 93,956 | 339,014 |
| • Forwards | | | | | | |
| • Outflow | (321) | - | - | - | - | (321) |
| • Caps and floors | | | | | | |
| • Outflow | (48) | (350) | (586) | (889) | (25) | (1,898) |
| • Inflow | 48 | 349 | 594 | 902 | 24 | 1,917 |
| | | | | | | |
| **TOTAL OUTFLOW** | **(277,462)** | **(330,097)** | **(349,298)** | **(260,557)** | **(126,864)** | **(1,344,278)** |
| **TOTAL INFLOW** | **273,095** | **324,507** | **347,947** | **248,357** | **125,178** | **1,319,084** |

## Managing the Bank's secondary liquidity reserves

The Bank considers prime securities and ECB-suitable loans, on the basis of which it is possible to raise liquid assets on the market or with the Central Bank, as secondary liquidity reserves.

Debt securities are classified into the trading or banking book depending on the purpose of their acquisition and on the planned manner of disposing with them. If, upon their acquisition, the Bank plans to and is capable of holding them until maturity, these securities are posted to the banking book.

The debt securities portfolio of the banking book is used simultaneously for providing secondary liquidity, stabilising interest rate and managing the Bank's interest rate risk. Securities in the banking book are classified as "available for sale" or "held to maturity". When managing the portfolio, the Bank uses conservative principles, especially with respect to the structure of portfolio in terms of issuers' ratings and its maturity. The framework for managing the securities of the banking book is set out by the Policy for managing debt securities in the banking book, which clearly defines the goals and the characteristics of the portfolio of securities of the banking book.

The basic provisions of the Policy for managing debt securities in the banking book:

- Because of the goal of stabilizing the Bank's interest margin, the securities with a fixed interest rate must account for at least 75% of the total portfolio.
- The largest part of the securities must be comprised of securities that can be pledged with the ECB, i.e. are on the list of acceptable financial assets with the ECB; outside this list there can be no more than EUR 250 million worth of securities;
- Modified portfolio maturity is limited to 3 years for the entire portfolio,
- Up to 40% of the total value of the portfolio can be classified as "held to maturity",
- There can be no more than EUR 600 million of bank, corporate or structured securities,
- There can be no more than EUR 100 million of structured securities.

As at 31 December 2009, the balance of securities in the banking book was EUR 2,873 million or EUR 569 million more than at the end of 2008. Of these, 88.6% were government securities, 6.2% were state guarantee bonds, 1.3% bank bonds, 3.2% short-term commercial bank bills and 0.7% other corporate bonds. There are no structured securities in the banking book. The majority of securities were invested in Slovenian government securities (35%), followed by Belgian (14%), French (11%), Dutch (7%) and German (7%) government securities.

Euro 2,294 million (80%) of securities were classified as available for sale and EUR 579 million (20%) as held to maturity. Considering the portfolio of securities with interest derivatives, the modified maturity of the banking book portfolio dropped from 1.7 to 1.4 compared to the previous year.

At the end of 2009, the balance of ECB-suitable loans was EUR 698 million or EUR 29 million more than at the end of 2008. The total balance of secondary liquidity reserves of the banking book thus increased in the period from 31 December 2008 to 31 December 2009 by EUR 598 million, i.e. from EUR 2,917 million to EUR 3,515 million.

| Data are in million EUR | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | Share | Share |
| Securities | 80% | 77% |
| • Government securities | 71% | 72% |
| • Securities with state guarantee | 5% | 3% |
| • Corporate securities | 4% | 2% |
| ECB-suitable loans | 20% | 23% |
| **Total** | **100%** | **100%** |

## 6.3. Information about the quality of debt securities

Debt securities are classified either into trading book or into banking book, according to the purpose of acquisition and how they will be managed. Securities that the Bank acquires principally for generating profits between purchase price and selling price are classified into trading book. Securities within the trading book are in financial statements always classified as financial assets held for trading. Securities for which the Bank has the intention to hold to maturity are part of the banking book. In financial statements they are classified as financial assets available for sale or held to maturity investments.

The portfolio of debt securities in the banking book ensures secondary liquidity and manages the interest rate risk of the Bank. When managing the portfolio, the Bank uses conservative principles, especially with respect to issuers' ratings and maturity of the portfolio.

Structure of banking book according to Fitch ratings:

| | 31.12. 2009 | 31.12. 2008 |
|---|---|---|
| Rating | in % | in % |
| AAA | 20.8 | 45.8 |
| AA | 45.1 | 21.4 |
| A | 1.7 | 2.8 |
| BBB | 0.9 | 0.4 |
| Unrated | 31.5 | 29.6 |
| **TOTAL** | **100.0** | **100.0** |

The portfolio of bonds in the trading book amounted to Euro 15 million as at 31 December 2009 (31 December 2008: Euro 136 million). Bonds from foreign issuers amounted to Euro 1.9 million. The remaining part of the portfolio comprises financial institutions bonds. The Bank also has some short-term securities (certificates of deposits from domestic banks and commercial papers issued by foreign banks). As at 31 December 2009 these securities amounted to Euro 200.4 million, comprising:

- Euro 0.4 million certificates of deposits from domestic banks (31 December 2008: Euro 0.8 million),
- Commercial papers issued by banks with high (only AA) ratings Euro 200 million (31 December 2008: Euro 181 million).

| | 31.12.2009 | 31.12.2008 |
|---|---|---|
| Rating | in % | in % |
| AA | 47.8 | 2.0 |
| A | 35.7 | 93.4 |
| B | 16.5 | 4.6 |
| **TOTAL** | **100.0** | **100.0** |

## 6.4. Fair value of financial instruments

| in thousand of euros | 31.12.2009 | | 31.12.2008 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| Loans and advances to government | 52,652 | 52,935 | 60,788 | 64,102 |
| Loans and advances to banks | 1,313,118 | 1,319,525 | 848,425 | 871,260 |
| Loans and advances to financial organizations | 1,178,022 | 1,189,579 | 1,181,869 | 1,199,696 |
| Loans and advances to individuals | | | | |
| • Granted overdrafts | 185,579 | 192,595 | 170,671 | 181,238 |
| • Loans for houses and flats | 922,355 | 1,014,455 | 757,343 | 804,232 |
| • Consumer loans | 831,233 | 840,901 | 914,186 | 970,786 |
| • Other loans | 52,231 | 59,805 | 60,960 | 64,734 |
| Loans and advances to other customers | | | | |
| • Loans to large corporate customers | 3,663,371 | 3,751,182 | 3,542,760 | 3,557,679 |
| • Loans to small and medium size enterprises | 2,571,265 | 2,647,508 | 3,030,797 | 3,043,560 |
| Held to maturity investments | 579,316 | 598,243 | 590,400 | 602,454 |
| Other assets | 49,830 | 49,830 | 29,237 | 29,237 |
| | | | | |
| Deposits from banks | 336,003 | 335,964 | 508,910 | 510,361 |
| Borrowing from banks* | 2,998,670 | 2,868,139 | 4,178,721 | 4,174,860 |
| Due to customers | 8,191,185 | 8,200,038 | 7,071,396 | 7,061,734 |
| Borrowing from other customers | 10,108 | 9,431 | 1,611 | 1,611 |
| Debt securities in issue | 1,769,606 | 1,805,053 | 468,872 | 458,041 |
| Subordinated liabilities | 784,911 | 696,441 | 839,290 | 753,900 |
| Other liabilities | 91,539 | 91,539 | 56,835 | 56,835 |

*Borrowings from banks include loans from repurchase agreements that are shown as financial liabilities associated to transferred assets on the face of the balance sheet.

**Loans and advances to banks**
The estimated fair value of the deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. The fair value of overnight deposits equals their carrying value.

**Loans and advances to customers**
Loans and advances are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair value.

**Deposits and borrowings**
The fair value of demand deposits equals their carrying value. However when considering the real value of these deposits to the depository institution one must consider also timing and amounts of cash flows, current market rates and credit risk of the depository institution itself. Part of demand deposits are stable similar to term deposits and therefore their economic value for the Bank differs from the carrying amount.

The estimated fair value of other deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

**Securities held to maturity and debt securities in issue**
The fair value of securities held to maturity and debt securities in issue is based on their quoted market price or value calculated by using discounted cash flows techniques.

**Loan commitments**
All credit facilities are drawn soon after the Bank grants a loan. Therefore they are drawable at market rates and their fair value is close to zero.

**Other financial assets and liabilities**
The carrying amount of other financial assets and liabilities is a reasonable approximation of fair value, because they relate mainly to short-term receivables and payables.

# 7. OTHER DISCLOSURES

## 7.1. Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. The volumes of related party transactions and the outstanding balances at year-end are as follows:

| in thousand of euros | Management Board and key management personnel | | Shareholders* | | Supervisory Board | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| **Loans issued** | | | | | | |
| Balance at 1 January | 3,396 | 3,175 | 61,162 | 65,507 | 8 | 29 |
| Increase | 2,854 | 3,675 | 214,181 | 497,224 | 132 | 26 |
| Repayments | (2,955) | (3,454) | (215,832) | (501,569) | (28) | (47) |
| **Balance at 31 December** | **3,295** | **3,396** | **59,511** | **61,162** | **112** | **8** |
| Interest income | 138 | 194 | 2,417 | 4,073 | 4 | 2 |
| **Loans received** | | | | | | |
| Balance at 1 January | - | - | 50,432 | 9,181 | - | - |
| Increase | - | - | 615,019 | 187,486 | - | - |
| Repayments | - | - | (665,451) | (146,235) | - | - |
| **Balance at 31 December** | **-** | **-** | **-** | **50,432** | **-** | **-** |
| Interest expense | - | - | (1,176) | (733) | - | - |
| **Deposits** | | | | | | |
| Balance at 1 January | - | - | 40 | 107 | - | - |
| Increase | - | - | 3,283,021 | 8,314,967 | - | - |
| Repayments | - | - | (3,211,618) | (8,315,034) | - | - |
| **Balance at 31 December** | **-** | **-** | **71,443** | **40** | **-** | **-** |
| Interest income | - | - | 340 | 2,572 | - | - |
| **Deposits received** | | | | | | |
| Balance at 1 January | 8,766 | 4,327 | 721,717 | 858,285 | 117 | - |
| Increase | 14,142 | 25,646 | 6,361,794 | 5,598,420 | 1,433 | 134 |
| Repayments | (15,163) | (21,207) | (5,759,835) | (5,734,988) | (667) | (17) |
| **Balance at 31 December** | **7,745** | **8,766** | **1,323,676** | **721,717** | **883** | **117** |
| Interest expense | (291) | (388) | (41,031) | (52,553) | (17) | (2) |
| **Investment in securities** | | | | | | |
| Balance at 1 January | - | - | 489,380 | 504,560 | - | - |
| Increase | - | - | 1,636,514 | 669,083 | - | - |
| Repayments | - | - | (1,073,803) | (688,233) | - | - |
| Valuation | - | - | 6,041 | 3,970 | - | - |
| **Balance at 31 December** | **-** | **-** | **1,058,132** | **489,380** | **-** | **-** |
| Interest and dividend income | - | - | 24,310 | 17,959 | - | - |
| **Debt securities in issue** | **328** | **328** | **17,515** | **126,489** | **-** | **-** |
| Interest expense | (14) | (14) | (2,724) | (5,421) | - | - |
| **Derivatives** | | | | | | |
| Fair values | - | - | 4,147 | 3,080 | - | - |
| Contractual amount | - | - | 738,036 | 206,721 | - | - |
| **Other assets** | **-** | **-** | **1,792** | **1,482** | **-** | **-** |
| **Other liabilities** | **-** | **-** | **36,473** | **12** | **-** | **-** |
| **Guarantees issued** | **263** | **348** | **8,795** | **7,224** | **7** | **5** |
| **Fee income** | **19** | **11** | **58** | **498** | **-** | **-** |
| **Fee expense** | **-** | **-** | **-** | **(1)** | **-** | **-** |

*Shareholders with more than 5% of ownership

| in thousand of euros | Subsidiaries | | Associated companies and joint ventures | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Loans issued** | | | | |
| Balance at 1 January | 724,917 | 469,854 | 61,348 | 41,676 |
| Increase | 1,820,582 | 938,479 | 203,366 | 249,139 |
| Repayments | (1,573,037) | (683,416) | (226,634) | (229,467) |
| **Balance at 31 December** | **972,462** | **724,917** | **38,080** | **61,348** |
| | | | | |
| Interest income | 35,184 | 35,966 | 2,650 | 2,942 |
| | | | | |
| **Loans received** | | | | |
| Balance at 1 January | - | 130,369 | 2,015 | 2,250 |
| Increase | 29,994 | 263,918 | 72 | 2,366 |
| Repayments | (29,994) | (394,287) | (81) | (2,601) |
| **Balance at 31 December** | **-** | **-** | **2,006** | **2,015** |
| | | | | |
| Interest expense | (51) | (3,540) | (72) | (115) |
| | | | | |
| **Deposits** | | | | |
| Balance at 1 January | 446,526 | 505,960 | 3,175 | 26,497 |
| Increase | 4,703,364 | 8,130,013 | 788,871 | 1,003,632 |
| Repayments | (4,912,217) | (8,189,447) | (739,604) | (1,026,954) |
| **Balance at 31 December** | **237,673** | **446,526** | **52,442** | **3,175** |
| | | | | |
| Interest income | 6,881 | 20,364 | 295 | 1,207 |
| | | | | |
| **Deposits received** | | | | |
| Balance at 1 January | 117,538 | 107,431 | 2,024 | 3,119 |
| Increase | 15,017,547 | 14,016,428 | 150,492 | 101,068 |
| Repayments | (15,033,128) | (14,006,321) | (146,059) | (102,163) |
| **Balance at 31 December** | **101,957** | **117,538** | **6,457** | **2,024** |
| | | | | |
| Interest expense | (1,309) | (3,537) | (26) | (57) |
| | | | | |
| **Investment in securities** | | | | |
| Balance at 1 January | 1,579 | 1,546 | 4,813 | 4,936 |
| Increase | 97 | 98 | 195 | 341 |
| Repayments | (97) | (98) | (4,560) | (643) |
| Valuation | (22) | 33 | (448) | 179 |
| **Balance at 31 December** | **1,557** | **1,579** | **-** | **4,813** |
| | | | | |
| Interest and dividend income | 97 | 98 | 195 | 341 |
| | | | | |
| **Debt securities in issue** | **-** | **-** | **28,486** | **37,847** |
| | | | | |
| Interest expense | - | - | (1,222) | (654) |
| | | | | |
| **Derivatives** | | | | |
| Fair values | 735 | 1,575 | - | - |
| Contractual amount | 67,482 | 84,217 | - | - |
| | | | | |
| **Other assets** | **109** | **352** | **-** | **-** |
| | | | | |
| **Other liabilities** | **2,613** | **-** | **-** | **-** |
| | | | | |
| **Guarantees issued** | **763,435** | **545,043** | **26,743** | **9,693** |
| | | | | |
| **Fee income** | **2,763** | **2,009** | **257** | **285** |
| | | | | |
| **Fee expense** | **(134)** | **-** | **(435)** | **(222)** |

### Key management compensation

Considering the Guidelines of the Committee of European Banking Supervisors, the Decision of the Bank of Slovenia on diligence of members of management and supervisory boards of banks and savings banks and in accordance with the competences of the Supervisory Board, as defined by the Articles of Association of NLB d.d., the Supervisory Board adopted the Criteria for remunerating the members of the Management Board in 2010.

The basis for collective remuneration of members of the Management Board is several quantitative indicators comparing:

- The operations of NLB d.d. and the NLB Group compared to the plan (ratio between profit before provisions and capital requirements for risks at the NLB Group level, cost-income ratio (CIR) at the level of the NLB Group);
- The operations of NLB d.d. and the NLB Group compared to the year before (ratio between loans to the non-banking sector and corporate and retail deposits);
- The operations of NLB d.d. in comparison with banks in Slovenia in the same year (ratio between loans to the non-banking sector and deposits of the non-banking sector);
- The performance of the NLB Group compared to comparable banking groups in the same year (ROE and CIR).

The basis for individual remuneration to members of the Management Board (qualitative part) is individual assignments from the action plan for 2010.

| in thousand of euros | Management Board | | Other key management | | Supervisory Board | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Short-term benefits | 1,130 | 1,035 | 8,663 | 8,973 | 135 | 149 |
| Cost refund | 6 | - | 189 | - | 50 | 94 |
| Long-term bonuses: | | | | | | |
| • severance pay | 162 | - | 47 | 92 | - | - |
| • post employment benefits | 57 | 57 | 649 | 650 | - | - |
| • jubilee bonuses | - | - | 6 | 2 | - | - |
| Bonuses | - | - | - | 659 | - | - |
| **TOTAL** | **1,355** | **1,092** | **9,554** | **10,376** | **185** | **243** |

Short term benefits include:

- Monetary benefits (salaries, insurance premiums, holiday bonus, other bonuses) and
- Non monetary benefits (car, health care, apartments).

Costs refund comprises food allowance and travel expenses.

Post employment benefits include pensions, life insurance after termination of employment and health care after termination of employment.

## Accrued income by individual member of the Management Board from 1 January to 31 December 2009

| Member | Income type | In Euros |
|---|---|---|
| Božo Jašovič | Short-term benefits: | |
| 1.10.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 39,270.40 |
| | Cost refund | 455.17 |
| | Long-term bonuses: | |
| | - Post employment benefits | 434.10 |
| **TOTAL** | | **40,159.67** |
| | | |
| Marjan Kramar | Short-term benefits: | |
| 1.1.2009 - 31.1.2009 | - Gross salary, benefits and holiday allowance | 189,794.14 |
| | Cost refund | 102.98 |
| | Long-term bonuses: | |
| | - Post employment benefits | 217.05 |
| **TOTAL** | | **190,114.17** |
| | | |
| Draško Veselinovič | Short-term benefits: | |
| 1.2.2009 - 30.9.2009 | - Gross salary, benefits and holiday allowance | 135,236.31 |
| | Cost refund | 688.34 |
| | Long-term bonuses: | |
| | - Post employment benefits | 7,657.00 |
| | Session fees for supervision in subsidiaries | 1,545.00 |
| **TOTAL** | | **145,126.65** |
| | | |
| David Benedek | Short-term benefits: | |
| 14.7.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 72,842.98 |
| | Cost refund | 531.16 |
| | Long-term bonuses: | |
| | - Post employment benefits | 5,747.15 |
| | Session fees for supervision in subsidiaries | 6,468.00 |
| **TOTAL** | | **85,589.29** |
| | | |
| Claude J C Deroose | Short-term benefits: | |
| 1.1.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 179,911.76 |
| | Cost refund | 769.64 |
| | Long-term bonuses: | |
| | - Post employment benefits | 11,446.20 |
| | Session fees for supervision in subsidiaries | 6,258.00 |
| **TOTAL** | | **198,385.60** |
| | | |
| Marko Jazbec | Short-term benefits: | |
| 1.12.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 12,674.03 |
| | Cost refund | 119.24 |
| **TOTAL** | | **12,793.27** |
| | | |
| Robert Kleindienst | Short-term benefits: | |
| 1.12.2009 - 31.12.2009 | - Gross salary, benefits and holiday allowance | 12,820.82 |
| | Cost refund | 102.98 |
| **TOTAL** | | **12,923.80** |

| | | |
|---|---|---|
| Matej Narat | Short-term benefits: | |
| 1.1.2009 - 30.11.2009 | - Gross salary, benefits and holiday allowance | 156,972.40 |
| | Cost refund | 986.44 |
| | Long-term bonuses: | |
| | - Severance pay | 53,961.70 |
| | - Post employment benefits | 10,447.05 |
| | Session fees for supervision in subsidiaries | 10,935.00 |
| **TOTAL** | | **233,302.59** |
| | | |
| Alojz Jamnik | Short-term benefits: | |
| 1.1.2009 - 30.11.2009 | - Gross salary, benefits and holiday allowance | 167,254.52 |
| | Cost refund | 1,018.96 |
| | Long-term bonuses: | |
| | - Severance pay | 53,959.10 |
| | - Post employment benefits | 10,416.45 |
| | Session fees for supervision in subsidiaries | 19,277.00 |
| **TOTAL** | | **251,926.03** |
| | | |
| Miran Vičič | Short-term benefits: | |
| 1.1.2009 - 30.11.2009 | - Gross salary, benefits and holiday allowance | 163,279.56 |
| | Cost refund | 1,024.49 |
| | Long-term bonuses: | |
| | - Severance pay | 53,965.62 |
| | - Post employment benefits | 10,459.85 |
| | Session fees for supervision in subsidiaries | 4,353.00 |
| **TOTAL** | | **233,082.52** |

**Accrued income by member of the Supervisory Board from 1 January to 31 December 2009**

| Member | Income type | In Euros |
|---|---|---|
| Marko Simoneti | Session fees | 7,680.75 |
| 1.7.2009 - 31.12.2009 | | |
| 16.11.2009 - 31.12.2009 | | |
| | | |
| Stanislava Zadravec Caprirolo | Session fees | 6,649.50 |
| 1.7.2009 -16.11.2009 | | |
| | | |
| Gregor Dolenc | Session fees | 6,534.00 |
| 1.7.2009 - 31.12.2009 | Reimbursement of expenses | 10,214.13 |
| | | |
| Rasto Ovin | Session fees | 5,073.75 |
| 1.7.2009 - 31.12.2009 | Reimbursement of expenses | 986.32 |
| | | |
| Boris Škapin | Session fees | 8,250.00 |
| 1.7.2009 - 31.12.2009 | | |
| | | |
| Andrej Baričič | Session fees | 7,986.00 |
| 1.7.2009 - 31.12.2009 | Reimbursement of expenses | 2,656.37 |
| | | |
| Stojan Petrič | Session fees | 7,590.00 |
| 1.7.2009 - 31.12.2009 | | |
| | | |
| Igor Masten | Session fees | 6,666.00 |
| 1.7.2009 - 31.12.2009 | | |
| | | |
| Jean O C Vanhevel | Session fees | 5,528.80 |
| 1.1.2009 - 31.12.2009 | Reimbursement of expenses | 2,477.74 |
| | | |
| Rita Paula C L Docx | Session fees | 16,338.20 |
| 1.1.2009 - 31.12.2009 | Reimbursement of expenses | 13,415.08 |
| | | |
| John Artur Hollows | Session fees | 10,825.90 |
| 1.1.2009 - 31.12.2009 | Reimbursement of expenses | 10,677.47 |
| | | |
| Igor Marinšek | Session fees | 9,601.60 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 567.24 |
| | | |
| Katja Božič | Session fees | 8,264.00 |
| 1.1.2009 - 30.6.2009 | | |
| | | |
| Peter Ješovnik | Session fees | 4,638.40 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 18.06 |
| | | |
| Iztok Bricl | Session fees | 6,232.20 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 96.78 |
| | | |
| Marko Rus | Session fees | 9,781.00 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 7,209.87 |
| | | |
| Darko Tisaj | Session fees | 7,486.80 |
| 1.1.2009 - 30.6.2009 | Reimbursement of expenses | 1,137.30 |

# NLB Group Directory

**Nova Ljubljanska banka d.d., Ljubljana**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 425 01 55
Fax: +386 1 425 03 31, 252 24 22
E-mail: info@nlb.si
www.nlb.si
Božo Jašovič, President of the Management Board
Claude Deroose, Member of the Management Board
David Benedek, Member of the Management Board
Robert Kleindienst, Member of the Management Board
Marko Jazbec, Member of the Management Board

**London Representative Office**
65/66 Queen Street
London EC4R 1EB, Great Britain
Tel: +44 20 7 329 2828
Fax: +44 20 7 489 0166
E-mail:info@nlblondon.co.uk

**Moscow Representative Office**
31 Novinsky boulevard
Office 8 - 14
123242 Moscow, Russia
Tel: +7 495 589 23 02, 589 23 03, 589 23 04
Fax: +7 495 589 2305

## 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

## Slovenian Network

**Headquarters – Central Slovenian Network**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 470 70 56
Fax: +386 1 476 29 29

**Headquarters – Regional Network**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 28 29
F: +386 1 476 28 72

**Private Banking Sector**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 23 66
Fax: +386 1 476 23 33

**Ljubljana Center Branch**
Trg republike 2
1000 Ljubljana, Slovenia
Tel: +386 1 476 23 30
Fax: +386 1 252 26 45

**Šiška-Bežigrad Branch**
Celovška 89
1000 Ljubljana, Slovenia
Tel: +386 1 476 57 02
Fax: +386 1 519 53 16

**Moste Branch**
Nove Fužine 33
1000 Ljubljana, Slovenia
Tel: +386 1 587 41 11
Fax: +386 1 540 68 17

**Vič-Notranjska Branch**
Tržaška 132
1000 Ljubljana, Slovenia
Tel: +386 1 477 46 01
Fax: +386 1 477 46 39

**Gorenjska and Kamnik Branch**
Koroška cesta 21
4000 Kranj, Slovenia
Tel: +386 4 287 41 60
Fax: +386 4 202 56 55
Tel: +386 1 831 83 10

**Podravje Branch**
Titova cesta 2
2000 Maribor, Slovenia
Tel: +386 2 234 45 04
Fax: +386 2 204 45 34

**Savinjsko-Šaleška Branch**
Rudarska cesta 3
3320 Velenje, Slovenia
Tel: +386 3 899 52 56
Fax: +386 3 899 51 40

**Pomurje Branch**
Trg zmage 7
9000 Murska Sobota, Slovenia
Tel: +386 2 515 43 74
Fax: +386 2 515 42 68

**Dolenjska and Bela krajina Branch**
Seidlova cesta 3
8000 Novo mesto, Slovenia
Tel: +386 7 339 14 56
Fax: +386 7 339 13 84

**Kočevje Branch**
Trg zbora odposlancev 66
1330 Kočevje, Slovenia
Tel: +386 1 893 93 30
Fax: +386 1 893 93 31

**Posavje-Krško Branch**
Trg Matije Gubca 1
8270 Krško, Slovenia
Tel: +386 7 490 46 44
Fax: +386 7 490 46 42

**Nova Gorica Branch**
Bevkov trg 3
5000 Nova Gorica, Slovenia
Tel: +386 5 335 88 10
Fax: +386 5 302 97 31

**Koper Branch**
Pristaniška 45
6000 Koper, Slovenia
Tel: +386 5 610 30 10
Fax: +386 5 627 65 08

## Members of the NLB Group

**Banka Celje d.d.**
Vodnikova ulica 2
3000 Celje, Slovenia
Tel: +386 3 422 10 00
Fax: +386 3 422 11 00
E-mail: info@banka-celje.si
www.banka-celje.si
Dušan Drofenik, President of the Management Board
Davorin Leskovar, Member of the Management Board
Aleksander Vozel, Member of the Management Board

**Adria Bank AG, Vienna**
Gonzagagasse 16
A-1010 Vienna, Austria
Tel: +43 1 514 09 0
Fax: +43 1 514 09 43
E-mail: headoffice@adriabank.at
www.adriabank.at
Jurij Detiček, President of the Management Board
Anton Burghardt, Member of the Management Board

**LHB Internationale Handelsbank AG, Frankfurt**
P.O. Box 10 14 35
60014 Frankfurt/Main
Grosse Gallusstrasse 16
60311 Frankfurt/Main
Germany
Tel: +49 69 21 06 0
Fax: +49 69 21 06 201
E-mail: info@lhb.de
www.lhb.de
Matjaž Jevnišek, President of the Management Board
Borut Stanič, Member of the Management Board

**NLB banka a.d., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbija
Tel: +381 11 22 25 100
Fax: +381 11 22 25 194
E-mail: infopult@nlb.rs
www.nlb.rs
Zoran Đurović, President of the Executive Board
Srđan Brajović, Member of the Executive Board
Boris Završnik, Member of the Executive Board
Brane Kobal, Member of the Executive Board

**NLB Montenegrobanka a.d., Podgorica**
Bulevar Stanka Dragojevića 46
81000 Podgorica, Montenegro
Tel: +382 81 402 000
Fax: +382 81 402 038
E-mail: info@montenegro-banka.com
www.montenegrobanka.com
Črtomir Mesarič, Chief Executive Officer

**NLB Prishtina sh.a., Pristina**
Rr. Rexhep Luci No. 5
10000 Pristina, Kosovo
Tel: +381 38 234 111
Fax: +381 38 246 189
E-mail: info@nlbprishtina-kos.com
www.nlbprishtina-kos.com
Albert Lumezi, President of the Management Board
Igor Žibrik, Member 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 51 221 620
Fax: +387 51 221 623
E-mail: info@nlbrazvojnabanka.com
www.nlbrazvojnabanka.com
Radovan Bajić, Director

**NLB Tutunska banka a.d., Skopje**
Ul. Vodnjanska 1
1000 Skopje, Macedonia
Tel: +389 2 310 56 01
Fax: +389 2 310 56 81
E-mail: tbanka1@tb.com.mk
www.tb.com.mk
Gjorgji Jančevski, President of the Management Board and CEO
Ljube Rajevski, Member of the Management Board
Tome Perinski, Member of the Management Board

**NLB Tuzlanska banka d.d., Tuzla**
Maršala Tita 34
75000 Tuzla, Bosnia and Herzegovina
Tel: +387 35 259 311
Fax: +387 35 251 414
E-mail: info@tuzlanskabanka.ba
www.nlbtuzlanskabanka.ba
Almir Šahinpašić, Director

**NLB Banka Sofia AD, Sofia**
WTC Interpred
Dragan Tsankov Blvd. 36
1040 Sofia, Bulgaria
Tel: +359 2 970 24 10
Fax: +359 2 970 24 42
E-mail: support@westeastbank.com
www.westeastbank.com
Vito Cigoj, President of the Management Board
Bojidar Archinkov, Member of the Management Board
Georgi Georgiev, Member of the Management Board

**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
Borut Simonič, President of the Management Board
Samo Turk, Member of the Management Board

**NLB Leasing Koper d.o.o.**
Ferrarska 10
6000 Koper, Slovenia
Tel: +386 5 610 04 00
Fax: +386 5 639 11 36
E-mail: info@nlbleasing-koper.si
Andrej Pucer, Director

**NLB Leasing Maribor d.o.o.**
Titova cesta 2A
2000 Maribor, Slovenia
Tel: +386 2 229 70 20
Fax: +386 2 229 70 21
E-mail: info@nlbleasing–maribor.si
Darja Trojner, Director

**NLB Leasing d.o.o. Beograd**
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, Director

**NLB Leasing Podgorica d.o.o.**
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**
Zmaja od Bosne 14c
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 33 716 135
Fax: +387 33 716 136
E-mail: info@nlbleasing.ba
Amela Kalisi, Director

**NLB Leasing Sofia e.o.o.d.**
WTC Interpred
Dragan Tzankov Blvd. 36
1040 Sofia, Bulgaria
Tel: +359 2 970 24 33
Fax: +359 2 970 24 51
www.nlbleasing.bg
Dimitar Atanasov Angelov, Director

**NLB Lizing d.o.o.e.l. Skopje**
Ul. Vodnjanska 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

**NLB Real-Estate d.o.o. Beograd**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 222 54 00
Fax: +381 11 222 54 44
E-mail: info@nlbleasing.rs
Samo Turk, Director

**OL Nekretnine d.o.o., Zagreb**
Miramarska 24
10000 Zagreb, Croatia
Tel: +385 1 63 29 972
Fax: +385 1 61 77 228
E-mail: info@OL-nekretnine.hr
Andrej Pogačnik, 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
Ana Kralj, President of the Management Board
Romana Fišer, Member of the Management Board

**LHB Finance d.o.o., Ljubljana**
Šubičeva 2
1000 Ljubljana, Slovenia
Tel: +386 1 244 70 00
Fax: +386 1 244 70 70
E-mail: rogelj@lhb.si
Tomaž Rogelj, Director

**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
Ernest Ribič, 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
Dmitar Polovina, Director

**Prvi faktor d.o.o., Sarajevo**
Džemala Bijedića bb, Zgrada PC Com Trade
71000 Sarajevo, Bosnia and Herzegovina
Tel: +387 33 767 210
Fax: +387 0 33 767 211
E-mail: nedim.rizvanovic@prvifaktor.ba
www.prvifaktor.ba
Nedim Rizvanović, Director

**Prvi faktor d.o.o., Zagreb**
Hektorovićeva 2
10000 Zagreb, Croatia
Tel: +385 1 6177 805
Fax: +385 1 6176 629
E-mail: Tomaz.Kacar@prvifaktor.hr
www.prvifaktor.hr
Tomaž Kačar, Director

**Prvi faktor d.o.o.e.l., Skopje**
Mito Hađivasilev - Jasmin br. 20
1000 Skopje, Macedonia
Ernest Ribič, Director

**NLB Factor a.s., Bratislava**
Tomašikova 30
821 01 Bratislava, Slovak Republic
Tel: +421 2 48 250 910
Fax: +421 2 48 250 911
E-mail: info@nlbfactor.sk
www.nlbfactor.sk
Miroslav Bernat, President of the Management Board
Ranko Nikolić, Member of the Management Board

**NLB Factoring a.s., Ostrava**
Gorkeho 3037/2
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
Štefan Loncnar, President of the Management Board
Roman Vontor, Member of the Management Board
Jaroslav Melichar, Member of the Management Board
Matjaž Sušnik, Member of the Management Board

**NLB InterFinanz AG, Zürich**
Beethovenstrasse 48
8002 Zürich, Switzerland
Tel: +41 44 283 17 17
Fax: +41 44 281 13 90
E-mail: info@nlbinterfinanz.ch
www.nlbinterfinanz.ch
Gorazd Jančar, Director

**NLB InterFinanz d.o.o., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 350
Tel: +381 11 22 25 351
Fax:+381 11 22 25 354
E-mail: mueller@nlbi.ch
Aleša Korenčič, Director

**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: infonlb@anet.cz
Štefan Loncnar, Director

**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, President 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, President of the Management Board
Peter Krassnig, Member of the Management Board

**NLB Nova Penzija a.d., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 1 122 2 54 58
Fax: +381 1 1313 93 19
E-mail: info@nlbnovapenzija.com
www.nlbnovapenzija.com
Ivan Grujić, Director

**NLB Nov penziski fond AD, Skopje**
Ul. Vodnjanska 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, President of the Management Board
Peter Velkavrh, Vice president of the Management Board
Maksimiljan Žveglič, 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, President 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 42 02
Fax: +386 1 583 41 96
E-mail: info@bankart.si
www.bankart.si
Aleksander Kurtevski, Managing Director

**NLB Propria d.o.o., Ljubljana**
Trg republike 3/XVII.
1000 Ljubljana, Slovenia
Tel: +386 1 470 08 00
Fax: +386 1 425 30 82
E-mail: nlbpropria@nlbpropria.si
Boštjan Koler, President of the Management Board
Zvonko Žagar, Member of the Management Board

**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
Jelena Geiger Bukovec, Director

**FIN-DO d.o.o. Domžale**
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel: +386 1 724 53 11
Štefan Brvar, Director

**ICJ d.o.o., Domžale**
Ljubljanska cesta 62
1230 Domžale, Slovenia
Tel: +386 1 724 53 18
Štefan Brvar, Director

**CBS Invest d.o.o., Sarajevo**
Džidžikovac 1
7100 Sarajevo, Bosnia and Herzegovina
Tel: +387 33 207 002
Fax: +387 33 720 332
Tarik Hadžimuratović, Director

**Conet d.o.o. Novi Sad**
Trg mladenaca 1-3 10
21000 Novi Sad, Serbia
Tel: +381 21 458 522
Fax: +381 21 458 539
Savko Ponjević, Director

**Convest a.d. Novi Sad**
Zlatne Grede 7
21000 Novi Sad, Serbia
Tel: +381 21 524 653
Fax: +381 21 422 083
E-mail: info@convest.co.yu
www.convest.co.yu
Djordje Čanak, Director

**LHB Immobilien GmbH, Frankfurt**
Grosse Gallusstrasse 16
60311 Frankfurt/Main, Germany
Tel: +49 69 21 06 195
Fax: +49 69 21 06 199
E-mail:
JÖrg SchÖnberger, Manager

**LHB Trade d.o.o., Zagreb**
Trg Dražena Petrovića 3
10000 Zagreb, Croatia
Tel: +385 1 484 40 30
Fax: +385 1 484 36 11
E-mail: lhb-zagreb@zg.htnet.hr
Erwin Enver Kumalić, Director
Karl-Heinz Truskaller, Director

**NLB Srbija d.o.o., Belgrade**
Bulevar Mihajla Pupina 165 v
11070 Belgrade, Serbia
Tel: +381 11 22 25 366
Fax: +381 11 22 25 365
E-mail: nlb@beotel.rs
Ana Blagojević, Director

**NLB Tutunska broker AD, Skopje**
Ul. Vodnjanska 1
1000 Skopje, Macedonia
Tel: +389 2 3133 464
Fax: +389 2 3133 305
E-mail: tutbrok@mt.net.mk
Dragi Tasevski, General Director

**Plan a.d. Banja Luka**
Milana Tepića 4
78000 Banja Luka, Republika Srpska,
Bosnia and Herzegovina
Tel: +387 51 221 101
Fax: +387 51 221 008
Goran Vidović, Director

**Tekig-Invest AD, Belgrade**
Kralja Petra 9
11000 Belgrade, Serbia
Tel: +381 11 639 466
Fax: +381 11 637 479
Novo Đonović, Director

## Branches and Representative Offices of NLB Group Members outside their Country of Residence

**LHB Internationale Handelsbank AG, Belgrade Representative Office**
Dobračina 29/I
11000 Belgrade, Serbia
Tel: +381 11 30 30 260
Fax: +381 11 30 30 260
E-mail: lhb-bg@eunet.yu

**LHB Internationale Handelsbank AG, Zagreb Representative Office**
Trg Dražena Petrovića 3
10000 Zagreb, Croatia
Tel: +385 1 484 40 30
Fax: +385 1 484 36 11
E-mail: lhb.bank@zg.t-com.hr

**NLB InterFinanz AG, Ljubljana Branch**
Slovenska 27
1000 Ljubljana, Slovenia
Tel: +386 1 200 06 43
Fax: +386 1 200 06 46

**NLB InterFinanz AG, Italian Representative Office**
Via Malta 2
34170 Gorizia, Italy
Tel: +39 0481 53 80 75
Fax: +39 0481 31 8 24
E-mail:

**NLB InterFinanz AG, Ukraine Representative Office**
Ltd JV Monis
72a Artema Str.
04050 Kiev, Ukraine
Tel: +380 44 590 1500
Fax: +380 44 590 1500
E-mail: sergeev@nlbi.ch

**www.nlbgroup.si**

Dobra zvezda.

At the end of 2009, the charity *NLB Dobra Zvezda* (NLB Good Star) was one of the shining stars in the NLB Group's constellation. *NLB Dobra Zvezda* carried out charitable campaigns at ten general hospitals throughout Slovenia. It made donations to the pediatric wards of these hospitals to improve medical treatment, and children were treated to 30 visits by Red Nose Comic Relief doctors to brighten their day.

The NLB Group's sense for charity is a fixed star because the Group supports more than 100 such projects and organizations every year.

The sky is not the limit when we wish to help! I know why.



Nova Ljubljanska banka d.d., Ljubljana, Trg republike 2, 1520 Ljubljana, Slovenia,
T: (01) 425 0155, 476 3900, F: (01) 425 0331, 252 2422, E-mail: info@nlb.si,
Internet: http:// www.nlb.si, SWIFT: LJBA SI 2X, Reuter: LB LJ, IBAN SI56, Account number: 01000-0000200097,
VAT identification number: SI91132550

Production: Mayer McCann d.o.o., Desktop publishing: Žiga Hrček, Text: NLB d.d.,
Photographs: Peter Uhan, arnoldvuga +, Printed by: Tiskarna Petrič, Slovenske Konjice, Edition: 700, April 2010

Annual report can be found on web site at http://www.nlb.si.